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### Rhetoric and realities of corporate social responsibility

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# Rhetoric and Realities of Corporate Social Responsibility

Proefschrift

ter verkrijging van de graad van doctor aan *Tilburg University*  
op gezag van de rector magnificus, prof. dr. Ph. Eijlander, in het  
openbaar te verdedigen ten overstaan van een door het college  
voor promoties aangewezen commissie in de aula van de  
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Hugo Smid

geboren op 30 mei 1981 te Bodegraven.

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*Frère Jacques, frère Jacques,  
Dormez-vous? Dormez-vous?  
Sonnez les matines! Sonnez les matines!  
Ding, daing, dong. Ding, daing, dong.*  
(Kinderliedje; melodie in Eerste Symfonie van Mahler)

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## Voorwoord

Het is voor mij altijd een raadsel geweest hoe een wetenschapper aan waarheidsvinding kan doen, als hij zich beperkt tot zijn eigen vakgebied of de wetenschap überhaupt. Terwijl waarheidsvinding toch de opdracht van de wetenschapper schijnt te zijn. Vermoedelijk doelt men dan op een bepaalde vorm van waarheid, bijvoorbeeld wetenschappelijke of feitelijke waarheid, maar dat lijkt dan weer een *contradictio in terminis* te zijn: een waarheid die *voorwaardelijk* is kan toch niet daadwerkelijk waar zijn?

Newton was zich bewust van de voorwaardelijkheid van de waarheid in de Natuurkunde, wanneer hij kort voor zijn dood zegt:

*'I do not know what I may appear to the world; but to myself I seem to have been only like a boy playing on the seashore, and diverting myself in now and then finding a smoother pebble or a prettier shell than ordinary, whilst the great ocean of truth lay all undiscovered before me.'*

(Newton, *Brewster, Memoirs of Newton*, 1855)

Maar is het afzien van het onderzoeken van de 'great ocean of truth' voor de natuurkundige goed verdedigbaar, voor de econoom is een dergelijke houding moeilijker te verantwoorden. Daar waar de Natuurkunde zich beperkt tot de bestudering van dode materie, heeft de Economie van doen met levende mensen. De mens is niet slechts een materieel, maar een bezielde wezen. Deze dubbele aard van de mens komt expliciet naar voren in Goethe's ode aan de geest (*Geist*):

*'Seele des Menschen,  
Wie gleichst du dem Wasser!  
Schicksal des Menschen,  
Wie gleichst du dem Wind!'*

(Goethe, *Gesang der Geister über den Wassern*, 1779;

georkestreerd door Schubert, *Gesang der Geister über den Wassern D714*, 1820)

Ook Wagner geeft met de uiteenzetting in zijn *Ring* blijk van deze realiteitszin:

*'Die drei Rheintöchter:  
"Rheingold! Rheingold! Reines Gold!  
O leuchtete noch  
in der Tiefe dein laut'rer Tand!  
Traulich und treu  
ist's nur in der Tiefe:  
falsch und feig  
ist, was dort oben sich freut!".'*

(Wagner, *Der Ring des Nibelungen*, 1869)

Indien de Economie zich niet bekommert om de ‘great ocean of truth’ kan het de mens weliswaar helpen om te gaan met zijn lot (*Schicksal*) en met de winden mee te varen, maar negeert het diens ziel (*Seele*). Deze ontzielde mens is precies de *homo economicus* die in de Economie als uitgangspunt dient. Door deze abstracte conceptualisering van de mens en derhalve eenzijdige opvatting van de werkelijkheid is de waarachtigheid van de door de Economie gegenereerde inzichten in het geding. Zo zal het zondermeer slaan met een ‘stick’ of het voorhouden van een ‘carrot’ *in concreto* ook de ziel van mensen kunnen raken, met alle consequenties van dien. Zonder oog voor de ‘great ocean of truth’ genereert de Economie weliswaar relevante functionele inzichten die helpen de schaarste van alledag te bemachtigen, maar die *in concreto* suboptimaal en mogelijk zelfs destructief kunnen zijn.

Het moet het voor gevoel hiervoor zijn geweest dat mij al vroeg tijdens mijn studie Economie motiveerde me niet slechts te confirmeren aan de Economie, maar er ook op te reflecteren. Eerst door Filosofie te gaan studeren. Later ook door mij verder te verdiepen in andere vormen van waarheidsvinding, zoals religie en kunst. Zo werd ik mij langzaam bewust van de relevantie om de wetenschappelijke inzichten in de Economie te verrijken met inzichten in de ‘great ocean of truth’ en begrip voor de geest te ontwikkelen. Want de geest, of men placht het ook wel ‘liefde’ te noemen, blijkt de duurzaamheid bij uitstek te zijn:

*‘En nu blijft geloof, hoop en liefde, deze drie; doch de meeste van deze is de liefde.’*

(1 Korinthiërs 13:13, *Statenvertaling*)

Hoewel het volgens Hegel overigens een behoorlijk ambitieuze opgave is hier begrip (*Erkenntnis*) voor te ontwikkelen, juist door de hoge mate van concreetheid ervan:

*‘Die Erkenntnis des Geistes ist die konkreteste, darum höchste und schwerste.’*

(Hegel, *Enzyklopädie der philosophischen Wissenschaften*, 1817)

Ook ik ontkom er niet aan me in dit proefschrift te uiten in een bepaalde abstracte taal (het Engels) en binnen een wetenschappelijke discipline (de Economie) om de inzichten van mijn zoektocht in de schaarse tijd en ruimte over te brengen aan voldoende anderen. Een hele uitdaging, en zeker in tijden van vermoeidheid droom ik dan ook niet zelden, net zoals de Franssprekende denker Derrida, van een pen met een even directe, en derhalve minder aan onbegrip onderhevige, werking als een injectiespuit (*syringe*)<sup>1</sup>:

*‘I always dream of a pen that would be a syringe.’*

(Derrida, *God, the Gift, and Postmodernism*, 1999)

Op die momenten is het altijd weer fijn een bezield mens in de ogen te kunnen kijken.

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<sup>1</sup> Anders dan het *Engelse* woord ‘syringe’ wordt het *Franse* woord ‘syringe’ door Van Dale in het Nederlands vertaald met ‘syrinx’, het zangorgaan van vogels.

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Maar hoewel het proefschrift een proeve van bekwaamheid in de Economie is, is wel (of eigenlijk *juist daarom* wel) geprobeerd om daarin zo goed mogelijk begrip van de geest te laten doorklinken en ontwikkelen. Dit uit zich alleen al in de keuze van het subject, namelijk maatschappelijk verantwoord ondernemen (MVO).

Tijdens het schrijven van mijn proefschrift werd mij dikwijls gevraagd wat dat dan toch eigenlijk behelst, MVO. Hoewel het dan verleidelijk is om een van de talloze gangbare definities van MVO te noemen, bemerkte ik dat dat niet volstaat om de betekenis van MVO daadwerkelijk inzichtelijk te maken. Effectiever is het gebruik van een analogie en het verschil tussen het hebben van seks en het bedrijven van de liefde te expliciteren. Hoewel zowel het hebben van seks als het bedrijven van de liefde een voortplantingsdaad is en derhalve in beginsel allebei in het teken staan van duurzaamheid, is er toch een relevant verschil: het eerste is een louter natuurlijk streven, en dus slechts een lichamelijke activiteit, het tweede een zelfbewust streven, en dus óók een bezielende activiteit. Bij het bedrijven van de liefde heeft men weliswaar seks, en wordt dus ook de lichamelijke behoefte bevredigd, maar het doel van de handeling is anders, namelijk het praktiseren en zelfbewust nastreven van het goede. Het bedrijven van de liefde heeft daardoor een betekenis die het hebben van seks mist, maar mist niet zijn functie.

Aangezien het nu eenmaal in de natuurlijke aard van een bedrijf ligt om winst te maken, is het slechts nastreven van korte termijn winstneming van een bedrijf als het hebben van seks: het zondermeer bevredigen van de natuurlijke behoefte en zich daarbij niet zelfbewust bekommeren om duurzaamheid. Dat korte termijn winstneming dan toch bijdraagt aan duurzaamheid is niet onmogelijk, maar wordt zo wel in handen gelegd van het lot (*Schicksal*), met alle mogelijke (maatschappelijke) ontwrichting daarbij van dien. Zeker wanneer het gezag van een coördinerende instantie ontbreekt. Anders dan korte termijn winstneming lijkt MVO meer op het bedrijven van de liefde: het door bedrijven zelfbewust nastreven en praktiseren van het maatschappelijk goede, en niet slechts korte termijn winstneming, hetgeen zou leiden tot een flinke verduurzaming van de bedrijfsvoering en de samenleving als geheel.

Toch bemerk ik na mijn vertoog vaak de nodige scepsis. Ten eerste lijkt velen MVO maar belerend en behoorlijk idealistisch: het is een mooi idee, maar in de praktijk toch helemaal niet haalbaar? Is het bijvoorbeeld vreemd dat een klein bedrijf dat onder grote druk staat zich beperkt tot korte termijn winstneming om überhaupt te kunnen overleven? Inderdaad kan men stellen dat het bedrijven van MVO niet in alle situaties gemakkelijk is en soms zelfs (op momenten) niet mogelijk. Laat staan dat MVO altijd wordt erkend. Maar dát er een spanning bestaat tussen korte termijn winstneming en MVO, en niet zelden het één daarom zal uitmonden in het andere, blijft ook dan een waarheid als een koe. In de praktijk kan dan ook maar zo goed mogelijk met die spanning worden omgegaan en lijkt MVO toch vooral te moeten worden beschouwd als nastrevenswaardig, maar waarin nu eenmaal (op momenten) ook tekort wordt geschoten. Dat MVO toch als belerend of idealistisch wordt beschouwd, heeft er dan eerder mee te maken dat er niet adequaat mee wordt omgegaan. Wat dan weer precies het belang van het nastreven van MVO toont.



Een tweede veel voorkomende vorm van scepsis is dat MVO wordt gezien als naïeve dromerij of zelfs kwaadaardige huichelarij: bedrijven zeggen weliswaar MVO te bedrijven, maar stiekem gaat het hen in de praktijk onbewust respectievelijk bewust toch gewoon om korte termijn winstneming. Ook deze tweede vorm van scepsis is begrijpelijk. Het is immers heel verleidelijk voor bedrijven om mee te liften en geld te verdienen met MVO, door (vaak met veel omhaal) te pretenderen dat ze goed doen, maar niet daadwerkelijk MVO te bedrijven aangezien dat significant meer inspanningen vergt. Maar impliceert dit dat MVO zelf een illusie is? Inderdaad kan een bedrijf al dan niet bewust doen alsof ze MVO bedrijft, maar dat kan alleen precies *omdat* de hierboven beschreven spanning bestaat en MVO dus blijkbaar juist géén illusie is. Zonder de spanning, en dus het onderscheid, kan immers het ene niet voor het andere worden gehouden. Het komt er dan eerder op aan oog te krijgen voor het verschil tussen kunst en kitsch en derhalve adequaat te kunnen beoordelen of de mooie woorden ook daadwerkelijke inhoud representeren. Dit adequaat te kunnen beoordelen lijkt me dan toch te beginnen met het überhaupt onderkennen van de hierboven beschreven spanning, die spanning leren uit te houden en vervolgens het kennismaken van de inhoudelijke betekenis daarvan. Precies daaraan heb ik willen proeven in dit proefschrift en MVO en de twee vormen van scepsis gethematiseerd door te verkennen (i) welke omstandigheden het bedrijven kunnen vergemakkelijken en bemoeilijken om MVO te bedrijven en (ii) hoe retoriek en substantie zich tot elkaar verhouden.

Bij de uitvoering daarvan vond ik steun bij vele anderen. Natuurlijk ben ik veel dank verschuldigd aan mijn promotor, Johan Graafland. Samen met hem heb ik deelgenomen aan het door de Europese Unie gefinancierde IMPACT-project, waar dit proefschrift een vrucht van is, en veel hoofdstukken in dit proefschrift zijn dan ook gezamenlijk werk. Zonder zijn vertrouwen in mij zou dit nooit zijn gelukt. Ook dank ik de overige leden van de promotiecommissie voor het lezen en beoordelen van dit proefschrift. Gelukkig dat twee betrouwbare bankiers (wat geen pleonasme schijnt te zijn), Erik Bieleveldt en Gerben Hieminga, als paranimf bereid waren achter mij te staan. Tevens dank ik al die verstandige waarheidlievende, en bovenal de inspirerende, leraren en hoogleraren die mij ergens gedurende mijn zoektocht hebben geholpen, zelfs (of eigenlijk *juist*) op al die momenten dat ik me niet bewust was van mijn onwetendheid. Hopelijk dat ik in de toekomst nog vele andere mensen zoals zij mag treffen. Mijn ouders en grootouders dank ik voor het praktisch tonen dat een menswaardige huishouding iemands vrijheid niet beknot, maar juist eerst mogelijk maakt. En natuurlijk dank ik ook de rest van mijn familie en vrienden, die altijd voor mij klaarstonden en waaraan ik niet twijfel dat ze bij leven en welzijn altijd voor mij klaar zullen staan. Want dat maakt ze nu juist precies tot familie en vrienden.

*‘Götterdämmerung is ook een zwart stuk. De wereld zoals die is, zo slecht als die is, die stort in het stuk in elkaar. En wat in de laatste maat gebeurt, is dat Wagner zegt: het enige waar de hoop voor de toekomst van de mensheid ligt, is de liefde. Dat komt tevoorschijn. Als het andere eindelijk weg is, is het daar al... Dat is het mooie...’*  
(Hartmut Haenchen, dirigent *Der Ring des Nibelungen* bij DNO, 2014)

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# Chapter 1

## Introduction

### 1.1 Introduction

Although traditional economic theory states that free economic markets enhance social welfare, the process of economic liberalization and globalization in the last decades has challenged the effectiveness of national regulations to internalize externalities resulting from economic activity, like environmental pollution (Crouch, 2006; Cutler et al., 1999). Powerful economic actors like companies nowadays are operating more dynamically and transnationally, making direct regulation from national governments to internalize market externalities more costly. The regulating power of national governments is furthermore challenged by higher competition among nation states and companies nowadays more easily ‘shop’ between nations, which pressures nation states to weaken themselves and to accommodate the primitive needs of companies (i.e. making short-term profits) even when this harms social welfare. A relevant question therefore is whether there is a reasonable alternative for weakened nation states to hand themselves over to the whims of the markets, other than to impose stronger national barriers, as both reactions are expected to reduce the wealth of nations.

One way to address the loss in effective market regulation is by more cooperation between nation states, which implies a higher relevance of transnational institutions like the European Union (EU). Through these institutions, nation states reduce the competitive pressure amongst themselves and therefore improve their capability and reduce the costs to internalize externalities with direct regulations by imposing regulations together. As externalities actually are those issues that are not dealt with at the market, as an alternative to joint regulations, nations could set up new markets together for missing ones. The EU, for example, introduced a carbon emission trading system in which a new market was created for carbon emissions, often regarded as an important externality. However, a relevant disadvantage of transnational institutions is that nation states often have to sacrifice much sovereignty for the transnational institution to be decisive enough, which might not be desirable in the case of substantial cultural heritages and differences between nation states like in the EU. Although uniforming those nation states may make economic transactions less costly in the short run, too much uniformity can lead to meaningful cultural losses, therefore eroding fundamental aspects, like trust and truthfulness, which as backbone highly contribute to the wealth of nations. This may cause boomerang effects creating tensions in and between the cooperating nation states, as national governments will experience diminished legitimacy and stress from their own citizens making it even more difficult to reach decisions at the transnational level.

Furthermore, one might wonder whether uniforming direct market regulation and setting up well-functioning missing markets by a centralized transnational government is practically feasible and desirable at all for all important externalities. It namely contradicts with one of the main characteristics of economic liberalization and globalization, namely the higher complexity of the economic landscape, which will be difficult to grasp and control for a centralized governmental body. Also centrally designing effective and efficient new markets for missing ones will be quite costly in such a complex environment, therefore diminishing social welfare. Indeed, especially in the current economic landscape due to economic liberalization, market participants are often much better informed about what is going on on the market than centralized actors and social costs in an economically free and globalized world order could therefore be lower when market participants internalize externalities themselves without explicit intervention of governments.

It therefore may be welfare enhancing to make the main characteristic of economic liberalization and globalization beneficial instead by acknowledging a changed market environment and therefore use more informal mechanisms that encourage market participants to behave more responsibly themselves. Therefore one has to acknowledge that politics and economics are much more intertwined than often suggested in the traditional economic theory. Indeed, in recent decades, a global non-state based public domain has come to the fore, an increasingly institutionalized transnational arena of discourse, contestation and action concerning the production of global public goods, involving private as well as public actors, which introduces new opportunities and constraints upon global and national governance (Ruggie, 2004). It is a sphere that is neither public, nor private, but a mixture of the two. The acknowledgement of the current relevance of this new global public domain implies another kind of response to the increased costs of formal legislation, in which nation states relax the idea of regulating the markets through formal laws or setting up markets themselves, but instead try to adapt and facilitate markets in such a way that market participants tend to internalize externalities on the market themselves. This mitigates the need of governments to control the increased complexity of the current economic landscape and furthermore has the benefit that decisions can be made and implemented at a pace that neither governments nor international agencies can match (Ruggie, 2004). Furthermore, although the acknowledgement of a non-state based public domain still favors cooperation between nation states in order to reduce their mutual competition, disagreements about regulating this new public domain will be less likely to emerge while these do not require giving up much political sovereignty to other nation states or transnational political bodies. Nation states should only agree on how to improve the working of the transnational public domain and therefore nor hand themselves over to the whims of the market nor have to impose too high barriers such that free markets are too much hampered.

Such a global non-state based public domain implies a shift in economic responsibilities for social welfare from governments to market participants, making market participants more liable to justify their behavior. As companies are often the most powerful actors on the markets and therefore most able to take up this responsibility, this created an

interest in corporate social responsibility (CSR). Following the well-known definition of the EU, CSR can be defined as the practice in which companies integrate social and environmental concerns into their business operations and in their interactions with their stakeholders on a voluntary basis, beyond compliance to mandatory, legal requirements (EC, 2001).

One of the main institutional mechanisms that stimulate companies to indeed take up their responsibility for internalizing externalities themselves is the reputation mechanism (Bovenberg, 2002; Graafland and Smid, 2004). This is illustrated by many cases, in which companies started to pay attention to CSR after an incident that damaged their reputation (Tulder and Van der Zwart, 2003). Companies need to earn a license to operate by meeting the expectations of stakeholders with respect to the company's contribution to profit, planet and people (Graafland, 2002). Companies that do not meet these expectations may see their market shares and profitability go down (McIntosh et al., 1998). The two relevant conditions for a well-functioning reputation mechanism are that information about the company's behavior is easily being transmitted to many potential future trading partners and that market participants collectively punish or reward companies for their past behavior. These conditions are expected to be more easily being fulfilled in the globalized and technology-intensive world order, precisely those characteristics that make the traditional way of governance through formal legislation nowadays more difficult. Instead of governance through direct regulation to take care of the public good, governments may nowadays therefore choose to regulate markets indirectly by improving the working of the reputation mechanism (Graafland and Smid, 2004).

Also other factors may induce companies to care about CSR. The relationship between CSR and innovation, for example, is often regarded as a relevant reason of the current attention to CSR. Several studies have shown that CSR is positively related to innovation (McWilliams and Siegel, 2000; Padgett and Galan, 2010). The reason is that innovative companies are already engaged in improving production processes and products and therefore have overcome management barriers such as the lack of finance or know-how such that they are more likely to be capable of undertaking organizational changes and absorbing new costs (Ziegler and Nogareda, 2009). There may also be a causal influence from CSR on innovation (Carrión-Flores and Innesb, 2010). For example, environmental management systems enable the development of strategic resources which can have a positive impact on innovation abilities in general and thus also on technological environmental innovations (Frondel et al., 2007; Wagner, 2007). While the literature cited above leaves the causality of the link between technical and organizational innovation open, Horbach (2008) found evidence on the basis of panel data which clearly indicates an impact of organizational environmental innovation (environmental management systems) on technical environmental innovation.

But CSR will only be a reasonable alternative for direct government regulation to internalize externalities if CSR really has an impact on society. It is not for nothing that the EU recently supplemented its definition of CSR by stating that CSR is 'the responsibility of enterprises for their impacts on society' (EC, 2011). For CSR to have an impact, first

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companies must be able to adhere to CSR at all. Is it not much too ambitious to ask them to care about this? Besides institutional and economic conditions like the working of the reputation mechanism and innovation, other conditions affect this ability (Brown et al., 2010; Campbell, 2007; Laudal, 2011). Companies that face too much competition, for example, may have difficulties to adhere to CSR. CSR, therefore, may be a nice idea, but maybe just not feasible for companies and therefore also not a reasonable alternative for direct government control. Second, some say that the company's engagement in CSR does not serve anything else than creating a favorable image and therefore lacks impacts. Even if it turns out that they have the possibility to take up CSR, are companies really taking up their responsibility by implementing CSR into their operations, or are they just pretending they are doing it (e.g. Weaver and Treviño, 1999)? And even if we could be assured that companies implement CSR deliberately, does this really have an impact on society or are those measures not effective at all and do the externalities in reality still exist (e.g. Barla, 2007; Boiral and Henri, 2012; Yin and Schmeidler, 2009)?

Right now, there is already much empirical literature on the relationship between CSR and the financial performance of companies, therefore focussing on the profit dimension of CSR. But there is not much research that considers the effectiveness of CSR for society in an integrative way that includes the social and environmental dimensions. Indeed, various other authors signal that the time has come to extend the research to the relationship between CSR and financial performance by also taking social and environmental impacts into account (e.g. Margolis et al., 2007; Wood, 2010). This dissertation therefore considers the benefits of CSR for society as a whole, instead of only shareholders and the company, and explores whether CSR can serve as an alternative for direct government regulation to internalize externalities. First, by studying whether and how the intentions that companies have indeed materialize into impacts for society. But even when CSR is found to have positive effects on social welfare, these will only be apparent when CSR is feasible for companies at all. Several factors can hamper and facilitate the CSR potential for companies. Therefore, secondly, we study which economic, institutional and internal factors drive companies to adhere to CSR.

The content of this chapter is as follows. We first present a literature overview about the tradition of conceptualizations of CSR and corporate social performance (CSP) in general. Next, we identify the gaps in the current empirical literature and the resulting research questions for this dissertation in Section 1.3. In Section 1.4, we present the conceptual framework that will be the guideline in the remainder of this dissertation. Next, in Section 1.5, we discuss the datasets and methodology that we use for the empirical analyses in this dissertation. Finally, in Section 1.6 we present the outline of this dissertation.

## **1.2 Tradition of CSR and CSP conceptualizations**

Since the explicit introduction of CSR by Bowen (1953), there has been much debate about how to conceptualize this concept. Besides unidimensional definitions of CSR, various integrative conceptualizations have been designed, like in the well-known works of Carroll in

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1979 and Wood in 1991, in which CSR is extended to CSP. In this section, we review the history of CSR conceptualizations.

### *CSR and CSP*

A necessary condition for conceptualizations of CSR and CSP to appear at all was a changed conceptualization of companies: were companies formerly predominantly conceptualized as closed systems that were and should be rationally structured and managed, Boulding (1956) was one of the first to conceptualize companies as complex open systems intrinsically connected to its environment. In the former conceptualization, companies were considered as one of the various possible entities in a market contract model, which underlies the traditional doctrines of liberal economic and political theory (Preston and Post, 1975). Like in physics, this model is amoral and pragmatic and it states that the interplay of forces of self-interest will, by way of the invisible hand, lead to a harmonious social outcome for society. A crucial characteristic of this abstract model is that each entity is thought to be isolated from every other entity and interactions only occur by means of transactions. Companies are an example of those entities, but also the government is considered as such an entity in this model. Boulding's conceptualization of the company, come to the fore in a more economically liberated and globalized world order characterized by huge interdependencies, is a manifestation of an interpenetrating model. The interpenetrating model acknowledges that business and society are not identical nor completely separated, which implies that they can change the structure of the other, instead of just altering the volume or character of inputs and outputs through static exchange relationships. Companies are not merely economic institutions, but *in concreto* also have a political dimension. Like states, companies reflect and reinforce values (Wartick and Cochran, 1985).

Freed from the non-reflected use of the market model prescribing the automatic discipline imposed by the invisible hand, this mutual dependency of the company and its environment opened up the possibility that companies have a responsibility other than making profits. Indeed, the basic idea of CSR is that business and society are interwoven rather than distinct entities (Wood, 1991), which is also a relevant assumption underlying Freeman's (1984) widely used stakeholder management model. Companies have a social contract with society and are moral agents (Wartick and Cochran, 1985). While those who adhered to the traditional doctrine of the market contract model can unambiguously state that the only responsibility of companies is to make profits (e.g. Friedman, 1970), the responsibilities of companies in an interpenetrating model are less obvious. This is why ever since discussions of CSR began, the primary question has been to whom companies are responsible and for what (Frederick, 1994; Wood, 2010).

To reduce the ambiguity of the CSR concept, already in the 1970s scholars suggested replacing the concept of CSR by 'corporate social responsiveness'. Corporate social responsiveness, called 'CSR2' by Frederick (1994), concerns how companies respond to social demands. CSR2 is a more pragmatic view than the original idea of CSR (called



‘CSR1’), emphasizing corporate action instead of responsibilities and duties. The idea is that social responsiveness leads managers to a clearer emphasis on the implementation of CSR, instead of the ambiguity in the responsibilities that the company has. Whereas social responsibility leans toward philosophical discourse, social responsiveness ‘shuns philosophy in favor of a managerial approach’ (Frederick, 1978, p. 7). This made Sethi (1979) to give different typologies of possible corporate responses as reactive, defensive, responsive or proactive without regard to the company’s intentions or outcomes.

Many scholars argued that CSR2 was an advanced way of thinking of CSR1, because CSR1 was operationally dysfunctional. Ackerman and Bauer, for example, argue that social responsibility ‘gives little guidance as to the content of what is to be done beyond “something more,” and it deflects our attention from much that is important’ (Ackerman and Bauer, 1976, p. 7). Advocates of social responsiveness state that it is a more tangible and achievable objective than social responsibility. In this way, these scholars pretend that CSR1 and CSR2 are two opposing conceptualizations of CSR.

The first integrative conceptual model of CSR was laid out by Carroll (1979) and later refined by Wood (1991). The integrative nature of these models, instead of arguing oppositions and replacements, is what makes them unique (Wartick and Cochran, 1985). Carroll deliberately choose the term corporate social performance (CSP) instead of CSR, while he argued that CSR (CSR1) only referred to the motivational part of CSP and not also to the social responsiveness part (CSR2). The CSP model acknowledges that CSR2 without principles is unguided and therefore blind, and CSR1 without the objectivity of CSR2 does not materialize and is therefore empty. This intertwinedness of both kinds of CSR is exactly what the CSP model recognizes. For being responsible in the real world, both kinds of CSR are necessary elements, and the reconciliation of the two kinds of CSR finally led to the recognition of a third part in the CSP model: the effects or the impacts of CSR.

In the following sections we discuss in more detail two of the most used CSP conceptualizations in the CSR literature: Carroll’s 1979 CSP model and Wood’s 1991/1994 CSP model.

#### *Carroll’s 1979 CSP model*

Carroll’s CSP model has three dimensions. The first dimension concerns the four domains of CSR, in which the different responsibilities of companies are recognized: economic, legal, ethical and discretionary. This conceptualization clearly acknowledges that economic and social responsibilities are not mutually exclusive, as economic responsibility is modeled as a subset of CSP. Ethical and discretionary responsibilities differ in the degree of social expectations: ethical responsibilities refer to social expectations of companies over and above legal requirements, while discretionary (or volitional) responsibilities refer to those responsibilities about which society has no clear-cut message for business and are therefore left to the company’s judgement and choice (Carroll, 1979). Carroll later changed the category of discretionary responsibilities to philanthropy (Carroll, 1991). Especially this first dimension

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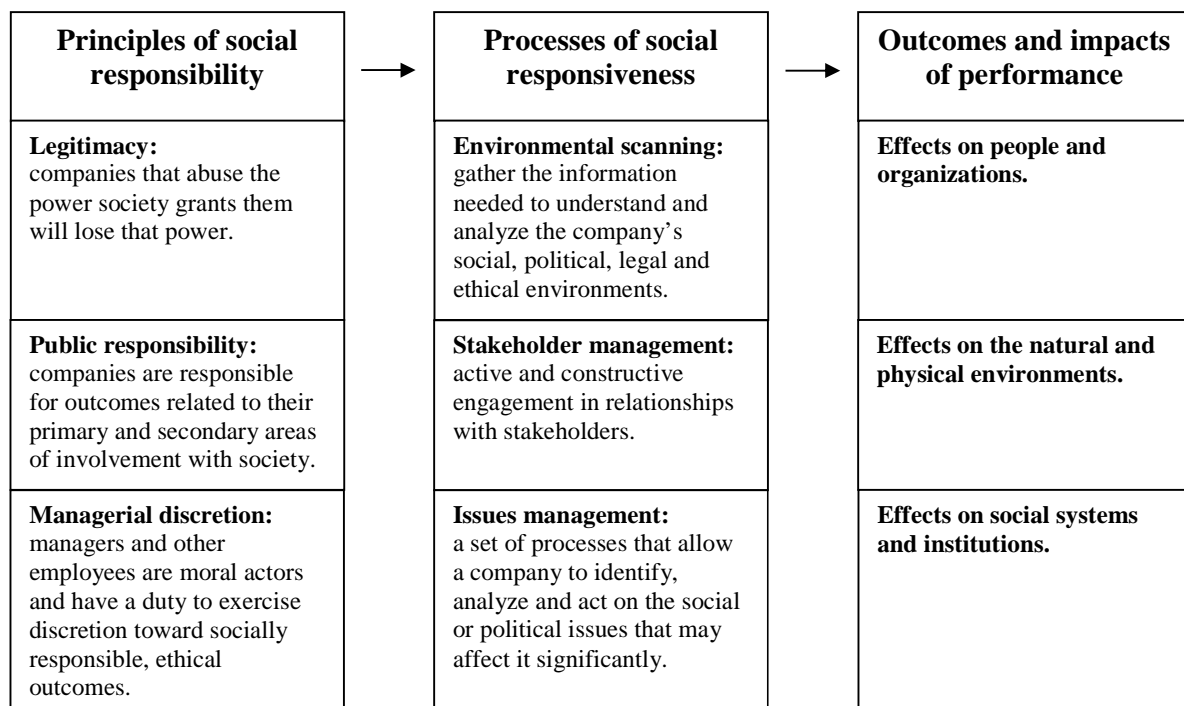
of Carroll's CSP conceptualization enjoyed (and still enjoys) great popularity among scholars, especially when considered as a Maslow-like pyramid with the economic responsibility as base and discretionary responsibility at the top.

The second dimension of the model concerns the social issues with which the companies should be concerned (like discrimination, product safety, and environment). The third dimension concerns the possible ways of responsiveness (reactive, defensive, accommodative, and proactive). Together those dimensions formed a cube of CSP with originally 96 cells in which CSP could be assessed.

#### *Wood's 1991/1994 CSP model*

A well-known extension of Carroll's CSP model is Wood's conceptualization of CSP (Wood, 1991; Wood, 2010). This model was slightly revised in 1994. Figure 1.1 shows Wood's revised model.

**Figure 1.1 Wood's CSP model**



Wood's model consists of three main parts (instead of dimensions). The first part concerns the principles of social responsibility and constitutes the motivations for companies to be involved in CSR, the second part the processes of social responsiveness, which is the action part, and the third part, the only one that is observable according to Wood, concerns the outcomes and impacts of CSP.

The first part resembles Frederick's CSR1 (Frederick, 1978). Other than Wartick and Cochran (1985), Wood (1991) argues that Carroll's four-part categorization of motivations cannot be considered as principles, but only as a categorization: categories do not represent motivators or fundamental truths. The categorization distinguishes various kinds of responsibilities, but does not say anything substantial about what these responsibilities really are.

While the basic idea of CSR is that society and business are interwoven, the first part of CSP acknowledges that society has certain expectations for appropriate behavior and outcomes of companies. Wood (1991) argues that those expectations are placed on three levels: the institutional level, the organizational level and the individual level. The expectations on the institutional level refer to the legitimacy that a company needs from society and refers to Davis's (1973) Iron Law of Responsibility: if an institution has social power, that institution must use its power responsibly or the power will be taken away by society. The second level of CSR1 concerns the principle of public responsibility, in which CSR is applied to the specific situation of an individual company. This principle, derived from Preston and Post's (1975) idea of public responsibility, frees the CSR concept from some vagueness: companies are not responsible for solving all social problems, but they are responsible for the problems that they have caused and they are responsible for helping to solve problems and social issues related to their own business operations and interests. But although the principle of public responsibility is much more specific about the responsibility the company should take and therefore gives guidance for setting priorities, it still leaves substantial room for managerial discretion, the third principle of CSR. This principle incorporates the idea that social responsibilities are not met by some abstract organizational actor, but by animated human beings that are constantly making decisions and choices. Managers in the company have choices how to fill in CSR in practice. It is a major reinterpretation of Carroll's discretionary category and refers specifically to the duties of individual employees as moral agents (Wood, 2010). This principle is taken from Ackerman (1975) and shows that *in concreto* it is unavoidable that managers are also public policymakers.

The multi-level division of the motivating principles of companies to engage in CSR into institutional, organizational and individual level factors shows that there is some interdependency: managers, for example, have some discretion to act, but are bounded by the principle of legitimacy and public responsibility. This also addresses Friedman's (1970) popular argument that managers are not allowed to play with shareholder's money: a proper CSR practice prevents this, as managers are indeed, *to a certain extent*, not allowed to 'play' with shareholder's money. But *to a certain extent*, this is also just unavoidable and therefore even desirable not to prevent, but rather to enhance the reliability of this practice.

The second part of the model concerns social responsiveness, defined by Frederick (1978) as the capacity of a company to respond to social pressures. This part of the model is consistent with the work of Ackerman (1975), who suggested three characteristic behaviors of a responsive company: it monitors and assesses environmental conditions (environmental

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scanning), it attends to the many stakeholder demands placed on it (stakeholder management) and it designs plans to respond to changing conditions (issues management). While in Carroll's CSP model, issues management was the third dimension and therefore distinguished from the second dimension of social responsiveness, Wood (1991) argues that issues management should be conceptualized as a process rather than as the endpoint of the CSP model.

Although Sethi (1979) argued social responsiveness as a replacement of CSR, Frederick (1978) saw it as a way of implementing CSR and therefore called it 'CSR2'. Also Carroll (1979) already observed that social responsiveness is no replacement for CSR, while companies that are very responsive to social concerns may in the process act very irresponsibly. This is the reason why principles and responsiveness are modeled as two distinct, but complementary parts: the responsiveness is seen as the action part and the principles as the motivating part. Wood's CSP model does not identify, nor completely disentangle the principles and actions components, which generates the possibility to distinguish principled and unprincipled actions as well as specific principles driving various responsive actions. There seems, however, to be one-way causation in this theoretical model: principles cause actions (and not the other way around). This implies that, although principles and actions complement each other, their nature is different as principles have an *a priori* status and actions not.<sup>2</sup>

Acknowledging CSR1 and CSR2 as two distinct but complementary concepts opens up the way of an outcome part in the model. Indeed, the principles of CSR and the processes of social responsiveness cause the outcomes and impacts, the endpoint of Wood's CSP model. According to Wood, this third part 'is the only portion that is actually observable and open to assessment' and 'the only place in the CSP model where any real performance exists' (Wood, 1991, p. 711). Wood argues that company's motivations and responsiveness will be judged on those visual outcomes. Carroll's model lacks this outcome part.

In Wood's original 1991 model, the outcome part was divided into three elements. The first element concerns the social (in the broad sense) impacts of corporate behavior. Those include positive impacts as well as negative impacts on society as a consequence of the company's behavior. The second and third element concerns the policies and programs companies use to implement responsibility and responsiveness. Wood conceptualizes these as the outcomes of the actions the company explicitly undertakes to manage its social impacts. Ideally, the policies and programs are linked to the three corresponding principles of legitimacy, public responsibility and managerial discretion: they should uphold the legitimacy of businesses in society, improve the company's adaptability and fit with its environment and create a culture of ethical choice respectively. By comparing the ideal case with the actual policies and programs, one could assess the performance on those issues.

In Wood's revised 1994 model, the third part was still divided into three elements, but now the elements concern effects on social (in the strict sense), environmental and governance issues respectively. The third part, now labeled 'outcomes and impacts of

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<sup>2</sup> Which does not imply that the actions in the social responsiveness part may not contribute to make companies *aware* of the principles. This, however, does not change the principles as such.

performance', includes both policies and programs, but also the effects, or impacts, on stakeholders and the society at large (Wood, 1994). Only in this revised 1994 model, we see a distinction being made between the implementation of CSR (i.e. policies and programs) and its impacts for three categories of issues (social, environmental and governance), all being an element of the third part of the model.

### **1.3 Gaps in existing empirical literature and research questions**

After three decades of extensive research, there is general agreement that the research on the relationship between CSP and the financial performance of the company remains inconclusive (Aragón-Correa and Sharma, 2003; Barnett and Salomon, 2006; Godfrey, 2005; Margolis and Walsh, 2003; McWilliams and Siegel, 2000; Schaltegger and Figge, 2000; Wood, 2010). Various authors signal that the time has come to extend the research to the relationship between CSR and financial performance, by also taking into account (i) the drivers of CSP and (ii) the social and environmental impacts instead of only impacts on the company's financial performance (e.g. Margolis et al., 2007; Wood, 2010).

The company's interest in CSP is often explained in terms of the 'business case'. The argument is that CSP contributes to the financial performance of the company, which stimulates companies to take up responsibilities that were traditionally addressed by the governments. Research has indeed shown that there is much evidence that the corporate financial performance (CFP) is positively related to CSP (Van Beurden and Gössling, 2008; Margolis et al., 2007; Orlitzky et al., 2003). However, the results of other empirical studies into the link between CSP and financial performance either on the company level or the portfolio level show that a significant positive relationship is not undisputed. There are many studies that find no indication of a superior performance of socially responsible investment (SRI) funds or SRI indices (e.g. Renneboog et al., 2008; Schröder, 2007). Some studies find a neutral or negative relationship between CSP and CFP (Jones and Wicks, 1999; McWilliams and Siegel, 2000). This also holds more specifically for the environmental dimension of CSP. For example, Filbeck and Gorman (2004) do not find a positive relationship between environmental and financial performance, rather the opposite. Also Telle (2006) does not find a positive relationship between environmental and financial performance. The latter conclusion is supported by Cañón-de-Francia and Garcés-Ayerbe (2009). Estimating the effects of ISO14001 certification on the market value of companies, they find that the relationship is negative for less polluting and less internationalized companies. Apparently, CSP is not necessarily a 'business case'. The argument that companies care about CSP just to improve the company's financial performance therefore seems too superficial. A deeper study into the underlying drivers of CSP and its impacts to explain CSP more thoroughly is therefore warranted.

Recently, research into CSP has become more focused on the institutional roots that underlie the relationship between CSP and CFP (Aguilera and Jackson, 2003; Brammer et al., 2012; Campbell, 2007; Matten and Moon, 2008). There is more recognition that the

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explanation of socially responsible behavior has to be sought in these roots. Business behavior does not occur in a vacuum, but is structured by its economic and institutional context. In literature, several articles have emerged that study this research question from a theoretical institutional perspective. For example, Campbell (2007) discusses economic and institutional conditions under which companies are likely to behave in socially responsible ways. Brown et al. (2010) distinguishes four sets of explanations of CSP that partly overlap with the factors described by Campbell, but adds others as well, such as managers' values. Besides the external economic and institutional drivers, they therefore also identify internal drivers of CSP. Laudal (2011) takes stock of drivers and barriers that particularly influence CSP of small and medium-sized enterprises (SMEs). None of these studies, however, tests the influence of the various drivers of CSP simultaneously. Therefore, it remains uncertain to what extent these partial influences are robust when tested in a broader framework and whether the estimates are biased by incorrectly leaving out one or more important causal factors. Furthermore, no extensive research is available yet on how the external drivers affect the internal drivers of the company.

Another major gap in existing literature concerns the effectiveness of CSR as a means to improve social and environmental impacts of companies. Investing in CSR does not necessarily imply that this also contributes to social welfare and therefore that responsible companies indeed supplement or take over responsibilities that are traditionally assigned to governments. Although economic impacts on society are already well-covered by research into the relationship between CSP and CFP as well as CSP and innovation, there is almost no research into the social and environmental impacts of CSP. More and more companies nowadays employ various kinds of CSR policies and instruments, such as codes of conduct, memberships of global initiatives like the UN Global Compact, ISO-certifications, and various types of cooperation with stakeholder initiatives. Several studies have been performed to analyze the factors that influence the adoption of these practices (Aragón-Correa et al., 2004; Brown et al., 2010; Gadenne et al., 2009; Lin and Ho, 2011; Williamson et al., 2006). But the impacts of these policies and instruments in terms of the realization of social and environmental goals remain uncertain. There are only few studies into the effectiveness of CSR. Ammenberg and Hjelm (2003) and Friedman and Miles (2001) looked at the impacts of environmental management systems and found that the establishment of a joint environmental management system in Sweden respectively Britain resulted in environmental improvements. However, both studies are based on a limited number of case studies of SMEs and the results are therefore difficult to generalize. Furthermore, current empirical studies do not consider social and environmental impacts in a coherent conceptual framework. Because of this limited evidence, it remains uncertain to what extent the combination of CSR policies and their implementation really leads to impacts and therefore contributes to social welfare. This is a serious gap in the field of CSR research, because if CSR would fail to have favorable social and environmental impacts on society, the whole concept may become redundant.

Most current studies on CSP focus on large companies instead of SMEs. Indeed, CSR has long been perceived as being the province of large companies and not necessarily well

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adapted to SMEs (EC, 2007). But as CSR becomes more mainstreamed and it is more commonly acknowledged that CSR is not just a 'luxury good', attention is shifting to also include SMEs (Spence et al., 2003). For 2012, SMEs accounted for about 67 percent of total employment and 58 percent of gross value added in the EU (EC, 2012). As more than 98 percent of all European businesses are SMEs, the importance of conceptualizing and analyzing the CSR impact for SMEs is evident. But SMEs are not just miniature versions of large companies and are often considered as having distinct characteristics (Curran et al., 1986; Thomas, 1998). Therefore the way of conceptualizing CSP of SMEs cannot be simply copied from the analyses for large companies (Fassin, 2008). Compared to large companies, SMEs are characterized by a relative lack of awareness, expertise and long-term strategic vision, as well as limited time and finances (Perrini, 2006; Russo and Tencati, 2009; Spence et al., 2003; Studer et al., 2006; Tilley, 2000; Welford and Frost, 2006; Welsh and White, 1981). In essence, the main difference between large companies and SMEs is that, in contrast to large companies, the majority of SMEs see little or no separation of ownership and control (Beaver and Prince, 2004; Perrini, 2006). This implies, first, that SMEs are more embedded in an informal social network rather than formal stakeholder relationships (Perrini, 2006) and generally have a greater understanding of local cultural and political contexts, more links with local civil society and a greater commitment to operating in a specific area (Baden et al., 2011). Second, SMEs are more often managed by their owners (Jenkins, 2009; Spence, 1999). The CSR policies of SMEs therefore tend to reflect the values of the managers, because of a closer relationship between the business and the personal life of the managers (Lepoutre and Heene, 2006; Murillo and Lozano, 2006). Although they often do not have a long-term strategic vision, the owners of SMEs often have long-term continuity as their first priority: the survival of the company is often linked with the objective of passing the business to their children (Bridge et al., 1998; Comte-Sponville, 2004). In order to attract and keep staff and collaborators, who could earn more from multinationals, they attempt to create a positive climate with a friendly atmosphere.

Studies that do study CSP for SMEs often suppose that formal procedures are generalizations which do not fit the nature of SMEs and that SMEs therefore should not be asked to implement CSR using formal procedures (Perrini, 2006; Russo and Tencati, 2009; Spence et al., 2003; Studer et al., 2006; Tilley, 2000; Welford and Frost, 2006; Welsh and White, 1981). A more nuanced view, in which is acknowledged that subjective informal and objective formal types of organization can reinforce each other, is still rare in literature. The directors, on whom CSP often depends in SMEs, can be erratic in their implementation of CSR and therefore not use the full potential of the company (Jones, 1999). Furthermore, owners often leave the company for personal reasons (Leroy et al., 2013). Formalization of CSR, therefore, may improve the internal management of the company by making it less dependent on the subjective judgements of the director, which contributes to the company's successful continuation. Furthermore, formal procedures can help in making employees and other stakeholders more aware of CSP and in keeping the focus on relevant social and environmental issues.

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The discussion above gives rise to the following research questions:

1. What are the economic and institutional drivers for companies to invest in CSP and how do they affect the internal drivers of CSP?
2. Does CSR really affect social welfare or is it just rhetoric?
3. How does the analysis for large companies and SMEs differ?

#### **1.4 Conceptual framework**

Wood's CSP model, as discussed in Section 1.2, is a generic conceptualization of CSP. As a generic model, this model is difficult to measure as measures are necessarily specific and not generic. Indeed, Wood (2010) states that only the third part of the model is observable and therefore measurable. It is therefore not surprising that Wood (2010) shows that her model was in 2010 still poorly empirically measured after two decades of its introduction.

In order to measure CSP, the generic model should be further specified without losing its core structure. First, as Wood shows that the three parts of the CSP model are inherently connected, isolating one part from the others is strictly not possible. Therefore, to measure the impacts of CSR, we also somehow need to measure the other two parts of the CSP model to keep the generic structure of this model intact: principles that guide actions which results in impacts. This is also what Jamali and Mirshak (2007) do in their conceptualization of CSP when they specify the three elements in the impact part of Wood's model to social policies, social programs and social impacts. The term 'social' is broadly defined here to encompass social as well as environmental issues. This specification within the impact part resembles Wood's generic structure: policies refer to the principle part, programs to the action part and impact to the impact part of Wood's model. Although it is not identical, it is also analogous to the structure of the Total Responsibility Management (TRM) framework, proposed by Waddock et al. (2002) for helping companies managing their responsibilities to stakeholders and the natural environment. The TRM framework is therefore even more applied to the business level than Jamali and Mirshak's model. The TRM framework consists of three parts: inspiration, integration and innovation/improvement. Inspiration concerns the vision setting (the guiding part), integration concerns the integration of responsibility into the company (the action part) and innovation/improvement the crafting of continual improvement orientation (the impact part).

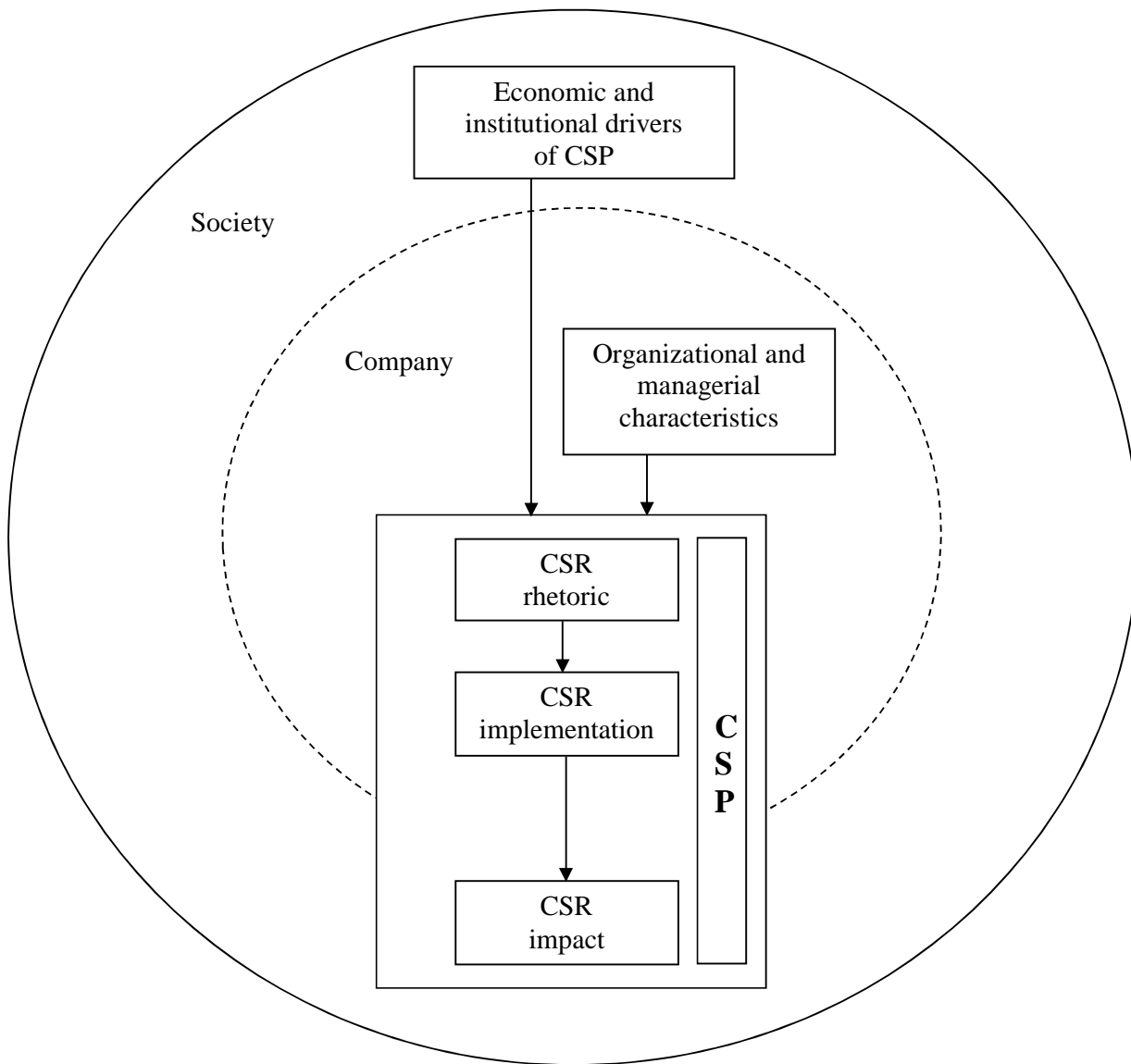
Second, we should not completely separate the society and the company nor completely identify them. As we showed above, the whole idea behind CSP is exactly that business and society are interwoven, but also distinct entities and therefore each can change the structure of the other instead of only altering the volume of the other: they are interpenetrating each other. Current studies on CSP tend to separate the two entities too much. Institutional theories tend to view the company as determined by the institutional environment and therefore often neglect the diversity of companies and their specific characteristics. Economic-based approaches, on the other hand, tend to consider CSP only in terms of



company level value maximization (Young and Makhija, 2013). As Wood's model shows, however, institutional, organizational and managerial factors are intertwined. But at the same time, we should also acknowledge that society and the company are to a certain extent separated, as a company's behavior can be clearly distinguished and assessed as separated from the behavior of the society as a whole and therefore causal relationships between the two can be identified. This separation is an omission in Wood's generic model, probably inherent to its generic nature.

We therefore split the company and the society, without actually modeling them as two distinct entities. Our conceptual framework is shown in Figure 1.2, in which the company and the society are presented as a ring.

**Figure 1.2 Conceptual framework**



As Figure 1.2 shows, we follow the generic structure of Wood's model: principles that guide actions which generates impacts. As our framework is necessarily more descriptive to enable the measurement of the various causal relationships, the principle part misses the explicit normative connotation that we find in Wood's model and therefore we call it 'drivers of CSP'. These drivers affect the CSP of the company, the action part in our framework. CSP is split into three subsequent parts: CSR rhetoric, CSR implementation and CSR impact. Although CSR impact is part of CSP and therefore an element of the second part, unlike the CSR rhetoric and implementation, CSR impact cannot be positioned exclusively inside (nor outside) the company. As companies are inherently part of the society, each impact at the company level is also an impact for the society. This is why we take CSR impact out and explicitly model it as the third part of our conceptual framework. CSR impact, therefore, is both an element of the second part and the third part of the framework. We now discuss the three parts of the framework in more detail.

In the motivational part, we make the same distinction as Wood and split this part into the institutional, organizational and managerial level. The institutional level is modeled as the economic and institutional drivers for CSP that stem from society. A relevant economic driver is the degree of competition: companies operating on very competitive markets may have little room to do good as they have to fight for their lives. On the other hand, companies that do not face enough competition may be tempted to sit back and not take much care about society. Institutional drivers explicitly refer to the legitimacy of the company. Examples are the market responsiveness of the stakeholders, the monitoring of non-governmental organizations (NGOs) and media and the effect of industrial organizations. Companies that rely more on the goodwill from its stakeholders are expected to be more willing to increase their CSP when these stakeholders indeed care about CSP.

But even within a uniform institutional environment, companies are often highly diverse with dissimilar resource endowments (Barney, 1986, 1991; Penrose, 1959), strategic orientations (Henderson and Mitchell, 1997; Peteraf, 1993) and market positions (Bain, 1956; Caves and Porter, 1977), which gives rise to differing economic needs and concerns. Therefore, besides those institutional characteristics of the company's external environment, also the internal environment is an important antecedent of CSP. These company-specific characteristics can be split into organizational factors and managerial factors. Examples of organizational factors are the size of the company and the sector in which it operates. A key managerial factor is the individual motivation for CSR. These motivational factors correspond to the managerial discretion in Wood's model, as a company's motivation is expected to stem from concrete human beings, especially the managers of the company.

Both the external and internal drivers are expected to affect the CSP of the company. In our conceptual framework, CSP is the action part. Also CSP is modeled as a process with a three-part structure. The first part concerns the rhetoric of CSR, often communicated in policy statements. The CSR rhetoric of the company guides the implementation of CSR in which targets are set and programs created, which could ultimately lead to CSR impact. A weak CSR implementation might also imply weaker impacts on society as these are subject to

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greater variability. But this framework also implies that CSR rhetoric is an achievement in itself, as companies without CSR rhetoric will be less subject to stakeholder punishment and rewarding. Furthermore, it may contribute to a sense of entitlement, conviction and rationality of action in the organization (Haack et al., 2012). Therefore, companies acknowledging and defining their responsibilities through rhetoric is a necessary condition for the CSP mechanism to function well. But rhetoric can only merge into realities when they are effectuated by implementation. Implementation without policy guidance is blind and policies without implementation are empty. In our model, therefore, rhetoric and realities are not two opposite concepts, as scholars often pose (Ashforth and Gibbs, 1990; Rodrigue et al., 2013), but two mutually dependent concepts, which together can generate concrete impacts.

In Wood's model, both implementation and impacts of CSR are categorized in the third part of the model, thereby not recognizing a possible causal relationship between the two as Wood's model not adequately takes into account that the company and society are not identical entities. A first distinction between implementation and impacts of CSR was made in Wood's revised model of 1994. But also then both were categorized in the third part of the CSP model. As our interest is to disentangle the implementation of CSR and its impact on society, in order to assess whether CSR indeed materializes and contributes to social welfare, we clearly distinguish implementation and impact, model them as different parts and hypothesize a causal relationship between them. Contrary to CSR rhetoric and implementation, which clearly belong to the company, impacts belong both to the company and the society.

### **1.5 Sample and methodology**

We split the analysis in two main parts. One part explicitly analyzes the drivers of CSP, while using a holistic measure of CSP. The other part explicitly examines CSP and the impacts of CSR on society, while taking the drivers of CSP for granted. In both parts, we employ an analysis for large companies and one for mainly SMEs. In the analyses for SMEs, we focus on Europe, while in the analyses for large companies we compare Europe with other parts of the world. Furthermore, we focus in our analyses on social and environmental issues of CSP and therefore do not explicitly study the economic dimension, as many studies already did this (see above) and the interest of the IMPACT-project, which the research for this dissertation was part of, was mainly to study those social and environmental impacts instead of the economic impacts.

To disentangle the complex relationships between the drivers of CSP, CSR rhetoric, implementation and impact, we need an extensive dataset. Whereas major rating agencies like Sustainalytics, ASSET4 and KLD have developed extensive CSR data for large companies, no such systematic dataset exists yet for SMEs. Although several studies have been done into CSR of SMEs (EC, 2007; Spence et al., 2003), all these studies do not distinguish between drivers, CSR rhetoric, implementation and impact. Moreover, they are based on samples that are too small for a European wide econometric analysis of CSR by SMEs. For that reason, we

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developed a large survey to gather data on CSR for SMEs in twelve European countries. A subset of the questions in the SME survey concerning drivers of CSR was also used for a survey among large companies as ratings of large companies do not include information on the drivers of CSR. Combining this information with the CSR ratings for large companies allows an analysis of the drivers of CSR for large companies. Furthermore, a reduced version of the European SME survey was used to gather data for companies in China. Table 1.1 summarizes the four datasets. Although the content of the datasets will be more thoroughly discussed in the various chapters when the data is actually used, below we discuss the characteristics of the various datasets in more detail.

**Table 1.1 Overview datasets**

	<b>Ratings Sustainalytics</b>	<b>Survey Sustainalytics</b>	<b>Survey SMEs</b>	<b>Survey China</b>
Type of data	Rating	Online survey	Online survey	Online survey
Year of registration	2008-2010	2010	2011	2011
Number of questions	-	40	145	24
Number of addresses	-	1,346	365,002	3,888
Sample size	1,131	212	5,317	109
Response rate	-	15.8%	1.5%	2.8%
Type of companies	Large companies	Large companies	Mainly SMEs	Mixed
Geographical coverage	Global	Global	12 European countries (Austria, Denmark, Finland, France, Germany, Hungary, Italy, Poland, Spain, Sweden, The Netherlands, UK)	China
Measures	CSP	Drivers of CSP	Drivers of CSP and CSP	CSP
Type of analysis	Drivers and impact analysis large companies	Drivers analysis large companies	Drivers and impact analysis SMEs	Impact analysis companies in China
Chapter	2,5	2	3,6	4

### *Ratings Sustainalytics*

To measure CSP for large companies, we used rating data from Sustainalytics. Data from sustainability rating agencies is often used to measure CSP. Sustainability ratings (often called ‘ESG ratings’ according to their three overarching categories of environment, social and governance indicators) have some beneficial characteristics compared to other measurement methods like corporate reputation indicators (Fortune Index) or surveys. ESG ratings respect the multidimensional nature of CSP, are compiled by entities external to the company, are based on diversified data sources and do not fully rely on perceptions (Graves and Waddock, 1994; Igalens and Gond, 2005; Liston-Heyes and Ceton, 2009). Rating agencies are furthermore specialized in gathering this kind of information and therefore expected to be able to combine objective figures with subjective judgement based on their

experience with the subject. This reduces the possibility of miscommunication and therefore improves the reliability of the data. Rating agencies, therefore, can be considered as important infomediaries in the research on sustainability (Dubbink et al., 2008).

Sustainalytics develops detailed sustainability data for large international companies. Companies are analyzed by local research partners in various parts of the world using one consistent methodology, designed in active dialogue with experts, users and companies. Sustainalytics applies strict criteria for analyzing companies and has adopted a stringent quality management system of peer reviewing to ensure consistency and quality. Analysts consult a large variety of sources to assess a company, such as public reporting of a company, in addition to information from NGOs, international institutions, press and governments. When a company profile is updated, Sustainalytics initiates a dialogue with the company to give it the opportunity for feedback.

We explicitly tested the reliability of the Sustainalytics data by doing a comparative statistical analysis of ESG ratings of Sustainalytics and the ESG ratings of Thomson Reuters' ASSET4 for companies that are rated by both rating agencies. For 2010, we found a bivariate correlation coefficient of 0.66 ( $p < 0.01$ ), which indicates a high convergence. We did a similar analysis for Morgan Stanley's ESG ratings (previously KLD) and found a bivariate correlation coefficient of 0.63 ( $p < 0.01$ ) for the ratings in 2010 for companies that are rated by both Sustainalytics and Morgan Stanley's ESG ratings. These results contribute to the confidence of the reliability of the Sustainalytics data.

Sustainalytics assesses companies on about 150 indicators. Generic indicators are supplemented with indicators specific to the sector in which the company operates. The company's performance is analyzed on several topics, categorized in three overarching categories: environment, social and governance (ESG). CSP is analyzed on the use of formal policies (like policies on discrimination), the implementation of instruments (like programs to increase diversity) as well as on impacts (like board gender diversity).

### *Survey Sustainalytics*

As Sustainalytics does not gather data on the drivers of CSP, in November 2010 we set out a survey among 1,346 companies that are rated by Sustainalytics after pretesting the survey among ten executives. To reduce a possible social desirability bias, we explained in a cover letter that the survey was confidential and to be used for research purposes only. After three reminders, in total 324 companies responded, of which 212 fully completed the survey (15.8 percent). Table 1.2 presents the geographical coverage of the respondents. The categorization of regions is based on the categorization of different types of capitalism (Whitley, 1999, 2002; Hall and Soskice, 2001; Amable, 2003), as used in the IMPACT-project (Moon et al., 2012). First, European capitalisms and Anglo-Saxon and Asian capitalism is distinguished. In Europe, the role of the government is considered to be larger than in the US and therefore CSR in Europe is more coordinated and in the US more liberal (Matten and Moon, 2008). Second, within the European capitalisms, the UK and Ireland are considered more closely

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connected to the US due to the relative prominence that markets play in the allocation of goods. Furthermore, scholars often distinguish the Scandinavian systems of capitalism from the Continental European system, due to the former's relative openness and redistributive effort. These differ from the Mediterranean European system and the former socialist economies in East Europe. East European countries are not included in this dataset, but only in the SME survey.

A majority of the respondents are companies with headquarters located in European countries. Of the people who actually filled in the survey, 62 percent of them are working on a CSR department and 38 percent on an investor relations or corporate communication department. During the process of completing the survey, respondents could temporarily store the unfinished survey which allowed them to delegate the completion of parts to other employees if specialized knowledge for certain questions was needed.

To further study the representativeness of our sample, we compared the average CSP score of the companies in our sample and all the companies in the Sustainalytics database. The average CSP score of the respondents to the survey (59.37) and its standard deviation (10.17) did not differ significantly from the average ESG-score (56.49) and standard deviation (10.18) of the 1,346 companies to which the survey was sent. This indicates that the respondents are representative for the total sample of companies rated by Sustainalytics.

As Sustainalytics also does not gather financial data, we used data from Capital IQ to supplement the data on CSP and its drivers with financial statistics. S&P Capital IQ is a multinational financial information provider headquartered in New York City and a division of Standard & Poor's. It covers 88,000 companies globally with over 5,000 unique financial data items and 2,500 industry-specific items.

**Table 1.2 Respondents survey Sustainalytics by country**

Region	Countries (share of region)	Share of total
Anglo Saxon non-EU	Australia (19%), Canada (36%), US (45%)	20%
Anglo Saxon EU	Ireland (22%), UK (78%)	10%
Mediterranean Europe	Greece (16%), Italy (19%), Portugal (13%), Spain (52%)	15%
Scandinavia	Denmark (25%), Finland (12%), Norway (9%), Sweden (54%)	11%
Continental Europe	Austria (14%), Belgium (4%), France (18%), Germany (30%), Luxembourg (1%), Switzerland (8%), The Netherlands (25%)	35%
Asia	Hong Kong (11%), Japan (67%), Singapore (21%)	9%

### *Survey SMEs*

In September, October and November 2011, together with CentERdata we fielded the SME survey. With this survey, we gathered information on CSP and its drivers among SMEs in twelve European countries. As SMEs are expected to be less able to understand the English language, a native speaker translated the English version of the survey in the native language of the SME. An advanced Language Management Utility, developed by CentERdata, was used to coordinate translations and to ensure consistent content coverage. We again included a cover letter to explain the respondents that the survey was confidential and to be used for research purposes only. In order to provide companies with an incentive to respond, an online feedback module was created for those SMEs that completed the survey. The module allowed SMEs to compare their own CSR with sector-specific and country-specific average CSR.

**Table 1.3 Respondents survey SMEs by country**

Region	Total number of SMEs	Number of e-mails	Percent of total	Number of responses	Response rate (%)
Anglo Saxon EU (UK)	1,551,381	31,801	2.0	163	0.5
Mediterranean Europe	6,681,294	124,790	1.9	2,100	1.7
Italy	3,937,495	85,920	2.2	1,534	1.8
Spain	2,743,799	38,870	1.4	566	1.5
Scandinavia	947,593	28,241	3.0	861	3.0
Denmark	208,897	8,431	4.0	358	4.2
Finland	202,578	6,039	3.0	240	4.0
Sweden	536,118	13,771	2.6	263	1.9
Continental Europe	4,833,225	137,322	2.8	1,655	1.2
Austria	285,672	11,254	3.9	148	1.3
France	2,345,988	63,054	2.7	346	0.5
Germany	1,682,049	50,129	3.0	537	1.1
The Netherlands	519,516	12,885	2.5	624	4.8
East Europe	2,077,983	42,848	2.1	548	1.3
Hungary	561,670	12,155	2.2	223	1.8
Poland	1,516,313	30,693	2.0	315	1.0
Total	16,091,476	365,002	2.3	10,481	2.9

The SME survey was presented to 365,002 companies (2.3 percent of all SMEs in these countries), whose addresses were taken from a database of KOMPASS, and after three reminders in total 10,481 companies responded, of which 5,317 respondents fully completed the survey. Table 1.3 presents a more detailed overview of the response per region and country. We categorized the regions in the same way as in the Sustainability survey, but now also East Europe is included (and non-European regions are not included, as it is a European survey, neither are some other European countries like Ireland and Portugal). As Table 1.3

shows, the total number of companies in the twelve countries equals 16,091,476.<sup>3</sup> We received many responses from Italy. This is due to the large number of Italian SMEs. The response rate was highest for Denmark, Finland and for The Netherlands. In contrast, for the UK and France we received a relatively low number of responses. When we only count the respondents that fully completed the survey, the average response rate was 1.5 percent. This relatively low response rate is in line with *ex ante* expectations, because the survey is electronic and relatively long and takes substantial effort from SMEs to complete.

Of the people who actually filled in the survey, 72 percent of the respondents held an executive position and therefore can be assumed to be able to assess with at least some accuracy their CSP and its drivers. Respondents could prematurely store the survey results during the process of filling in the survey, allowing them the opportunity to ask other employees to continue filling in certain questions if specialized knowledge was needed.

Because of the relatively low response rate and possible non-response bias, we cannot assume that the outcomes are representative for all SMEs in the twelve European countries. In order to evaluate the non-response bias, we used wave analysis which assumes that late respondents are more similar to non-respondents than early respondents (Lin and Ho, 2011). For this purpose, we constructed a dummy variable with value 1 for respondents that responded to the first round, value 2 for responses after the first reminder, value 3 for responses after the second reminder and value 4 for responses after the third reminder. Bivariate correlation analysis showed that the (Spearman) correlation coefficient between this dummy and the CSP of companies is insignificant (-0.012 with  $p=0.39$ ). Based on this methodology, we therefore find no indication of a significant non-response bias.

### *Survey China*

In November 2011, we set out a reduced version of the SME survey among Chinese companies. The survey was designed in English and then translated into Chinese by a native speaker. A member of our research team carried out four interviews (in Chinese) with managers of two domestic and two foreign companies located in China to pretest the survey questions before the final distribution of the survey took place. The results were used to identify problems in the survey, such as comprehension difficulties or inadequate response options and to improve the survey design afterwards. Then the survey, together with a cover letter in which we secured confidentiality, was sent to 3,888 companies using email addresses from a database of KOMPASS. The companies are located in 30 provinces, but the biggest shares are from Beijing (12 percent), Guangdong (10 percent), Jiangsu (10 percent), Shanghai (9 percent) and Zhejiang (11 percent). Afterwards, two reminders were sent in two weeks' time. We received 109 responses, a response rate of approximately 2.8 percent.

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<sup>3</sup> See: [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index\\_en.htm#h2-1](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm#h2-1) (accessed on 1-9-2011).



**Table 1.4 Respondents survey China by company size, sector and ownership**

Number of employees		Sector		Ownership	
Small (1-50)	22%	Manufacturing	18%	Domestic	74%
Medium (50-300)	36%	Other manufacturing	29%	Foreign	26%
Large (300-5000)	24%	Financial	15%		
Giant (> 5000)	18%	Other services	38%		

Table 1.4 shows that about half of the respondents are service companies. Moreover, more than 70 percent are domestic companies. Furthermore, the sample covers small companies as well as medium-sized and large companies. The inclusion of SMEs is of special importance, as Chinese SMEs have often been associated with socially irresponsible behavior (Tang and Li, 2009).

As the response rate is relatively low, we evaluated a possible non-response bias, by using wave analysis which assumes that late respondents are more similar to non-respondents than early respondents (Lin and Ho, 2011). Therefore, we constructed a dummy variable with value 0 for respondents that responded to the first round, value 1 for respondents that responded after the first reminder and value 2 for respondents that responded after the second reminder. Bivariate correlation analysis showed no significant negative (Spearman) correlation coefficient between this dummy and any of the implementation instruments. This indicates that the non-response bias is not important in this study.

Another potential bias that may reduce the quality of the data is social desirability bias. In order to reduce social desirability response bias, we explained to the respondents in a cover letter that the survey was confidential and to be used for research purposes only. The identity of the participants would remain anonymous. The executives who filled in the survey thus had little reason to present a more favorable picture of their company than they knew was the case. Several studies show that self-reported behavior and actual behavior are strongly correlated (e.g. Bernard, 2000; Fuj et al., 1985; Gatersleben et al., 2002; Warriner et al., 1984). A final reason to expect that a potential social desirability response bias will not blur the analysis is that we found a high variance in the scores of the various components of CSP.

## 1.6 Outline of the dissertation

Table 1.5 shows the outline of the dissertation. Chapters 2-6 were originally written to serve as independent articles to be published in peer-reviewed journals with different types of audiences. Therefore, these chapters could also be read in isolation, some overlap in texts is present and the chapters are sometimes framed slightly differently.

The focus of the first part of this dissertation, Chapter 2 and 3, is on the drivers of CSP. In this analysis, we do not explicitly model CSP by distinguishing each individual element of it (CSR rhetoric, CSR implementation and CSR impact), but rather use a single overall score to measure CSP. Chapter 2 analyzes the drivers for large companies by relating

data from the survey for large companies for drivers and overall scores for CSP from Sustainalytics. Chapter 3 analyzes the relationships for SMEs, by using the data from the SME survey.

As we have a much larger dataset for SMEs, the framework that we use for SMEs can be more sophisticated than the framework for large companies. Not only do we distinguish two types of external drivers (economic and institutional drivers) for SMEs, we also add internal drivers of CSP to the analysis. Furthermore, we take the complex structure of the various drivers into consideration in the conceptualization and in the empirical analysis by using structural equation modeling instead of multiple regression analysis. Since most drivers that affect CSP of large companies might also affect CSP of SMEs, we use a similar framework in both types of analyses. For example, price competition is expected to be a relevant driver for both large companies and SMEs. However, some of the drivers of CSP of large companies are not relevant for SMEs and therefore we dropped these from the analysis. An example is mandatory CSP reporting, as SMEs are not expected to be subject to this. Other drivers were included, but modified. For example, the responsiveness of the capital market was modified to the responsiveness of banks in particular, as for SMEs these are much more relevant than every other stakeholder on the capital market, like shareholders.

**Table 1.5 Outline dissertation**

	Chapter	Research question	Type of companies	Dataset
	1 Introduction			
<b>Drivers</b>	2 Economic and institutional drivers of CSP	What are the economic and institutional drivers of CSP?	Large	Ratings Sustainalytics and survey Sustainalytics
	3 External and internal drivers of CSP	What are the external and internal drivers of CSP and how do they interact?	Mainly SMEs	Survey SMEs
<b>Impact</b>	4 Impacts of CSR in China	Does CSR have an impact in China?	Mixed	Survey China
	5 Impacts of CSR for large companies	Does CSR have an impact for large companies?	Large	Ratings Sustainalytics
	6 Impacts of CSR for SMEs	Does CSR have an impact for SMEs?	Mainly SMEs	Survey SMEs
	7 Conclusion			

In the second part of this dissertation, we focus on the relationship between the various parts of CSP. The question is whether the CSR rhetoric and the implementation of CSR contribute to impacts. The framework assumes that if a company commits to CSR by using rhetoric, it has a strong motive to dedicate resources to CSR instruments in order to integrate it into the organizational procedures and implement CSR at the concrete issue level to secure that the impacts cohere with its rhetoric. Otherwise it runs a high risk that the company's practice is found to be opposite to the company's rhetoric and this will negatively affect the company's

reputation. We therefore expect that a higher level of CSR rhetoric positively affects CSR implementation. Subsequently, the implementation of CSR may result in improved CSR impact.

In Chapter 4, we first explore the relationship between the various parts of CSP for companies in China. Although the sample for Chinese companies is quite small, China is an interesting case to study CSP as it became the largest emitter of greenhouse gases (GHG) in 2006, 8 percent more than the US, mainly due to its high foreign trade intensity (Ma and Chen, 2011). In 2006, China accounted for 10 percent of the global energy use and was relying for approximately 75 percent on coal for generating its energy (McKibbin, 2006). Also the large increase in the movement from people from rural to urban areas and the major role of social networks (often called ‘guanxi connections’) shows the expected relevance of CSR in China (Hu, 2008). A study of Hu and Saich (2012) shows that migrant workers often get less educational and health services than registered villagers. But although Chinese companies seemingly agree to conduct CSR and started to implement various CSR instruments, the CSR impact in terms of the realization of social and environmental goals is generally considered to be lagging behind substantially. In Chapter 4, we therefore research whether the CSR rhetoric and programs that Chinese companies have put in place really have social and environmental impacts. This also makes it possible to consider whether CSR, often regarded as a Western concept, is also somehow apparent in China.

In Chapter 5 and 6, we study more thoroughly how CSR rhetoric affects CSR implementation and how they are related to CSR impact. In Chapter 5, we focus on large companies worldwide and use the rating data from Sustainalytics. In Chapter 6, we study CSP of European SMEs by using survey data only. The approach in Chapter 6, however, differs from the one in Chapter 5. In Chapter 5, we simply follow our formal conceptual framework (see Section 1.2) by studying the relationships between CSR rhetoric, as expressed with formal CSR policies, implementation and impacts. In Chapter 6, however, we follow our framework, but also reflect on it. Due to their nature, SMEs tend to organize CSP in a less formal way than larger companies and therefore tend to have no formal CSR policies. Analyzing CSR impact within such a formalized setting as our conceptual framework assumes is then less appropriate. Therefore, we adjust the analysis and, instead of assuming formalizations to exist, we study a more fundamental question, namely whether objectively formalizing CSR contributes to higher CSR impact for SMEs, compared to an only subjective informal way of organizing CSR. This is a more significant change in the framework than in Part I of this dissertation, where we used the same type of framework for studying the drivers of CSP both for large companies (Chapter 2) and SMEs (Chapter 3). We only modified the framework marginally in Chapter 3 by framing it to the situation of SMEs. But as in Part II we focus on the company level, a more fundamental change in the type of framework is appropriate.

In the closing chapter, Chapter 7, findings are summarized and compared between the different chapters. Furthermore, policy implications are formulated and directions for further research are given.

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# **Part I**

## **Drivers of CSP**

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# Chapter 2

## Economic and institutional drivers of CSP

### 2.1 Introduction

Globalization, unbounded technologies and growing interdependencies between people, companies and countries have increased global productivity and chances for people, companies and countries to climb the social ladder. The negative side effects of the increased openness and economic development, however, are increasing negative external social and environmental effects of production and consumption patterns which threaten human well-being. As the regulating power of national and international governments is limited in a globalized world order and the power of companies has increased, this challenge has generated a strong interest in corporate social performance (CSP)<sup>4</sup> of companies as a new governance model that replaces centralized regulation by a more collaborative approach (Hess, 2007; Jensen and Sandström, 2011). Policymakers understand CSP as a concept used by companies to integrate social and environmental concerns into their business operations and in their interactions with their stakeholders on a voluntary basis, beyond compliance to mandatory, legal requirements (EC, 2001).

Research has shown that using CSP as a new governance model is potentially promising, because there is some evidence that the financial performance of companies (CFP) is positively related to CSP (Van Beurden and Gössling, 2008; Margolis et al., 2007; Orlitzky et al., 2003). The argument is that CSP contributes to the financial performance of the company, which stimulates companies to take up responsibilities that were traditionally addressed by the governments. However, the results of other empirical studies into the relationship between CSP and financial performance either on the company level or the portfolio level show that a significant positive relationship is not undisputed. There are many studies that find no indication of a superior performance of socially responsible investment (SRI) funds or SRI indices (e.g. Renneboog et al., 2008; Schröder, 2007) and a neutral or negative relationship between CSP and CFP (Cañón-de-Francia and Garcés-Ayerbe, 2009; Filbeck and Gorman, 2004; Jones and Wicks, 1999; McWilliams and Siegel, 2000; Telle, 2006). Apparently, CSP is not necessarily a ‘business case’. The argument that businesses engage in CSP just to improve the company’s financial performance therefore seems too superficial. A study into the underlying drivers of CSP to explain CSP more thoroughly is therefore warranted.

Recently, research into CSP has become more focused on the institutional roots that underlie the relationship between CSP and CFP (Aguilera and Jackson, 2003; Brammer et al.,

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<sup>4</sup> CSP is a broader concept than corporate social responsibility (CSR), as it encompasses besides the principles of social responsibility also the processes of social responsiveness and impacts of CSR (Orlitzky, 2008; Wood, 1991). As we use rating data and since all these three factors are covered in the rating, we mainly use the broader CSP concept in this chapter.

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2012; Campbell, 2007; Matten and Moon, 2008). There is more recognition that the explanation of socially responsible behavior has to be sought in these roots. Business behavior does not occur in a vacuum, but is structured by its economic and institutional context. In literature, several articles have emerged that study this research question from a theoretical institutional perspective. For example, Campbell (2007) discusses economic and institutional drivers under which companies are likely to behave in socially responsible ways. Brown et al. (2010) distinguishes four sets of explanations of CSP that partly overlap with the factors described by Campbell, but adds others as well, such as managers' values. Laudal (2011) takes stock of drivers and barriers that particularly influence CSP of small and medium-sized enterprises (SMEs).

In this chapter, we particularly focus on two economic drivers of CSP: price competition and technological competition. Van de Ven and Jeurissen (2005) hypothesize that fierce competition reduces CSP, whereas Campbell (2007) develops the hypothesis that companies will be less likely to act in socially responsible ways if there is either too much or too little competition. If these hypotheses are true, the government is confronted with a dilemma, as these hypotheses imply that antitrust policy that stimulates fierce competition may simultaneously hamper CSP. Empirical research on these hypotheses is, however, absent. Until now, theoretical studies on the relationship between CSP and competition fail to distinguish between price and technological competition. It is likely, however, that these two types of competition may have different effects on CSP. In this chapter, we therefore test the impact of price competition and technological competition on CSP separately.

Also with regard to the effects of institutional drivers of CSP, empirical research is fragmented and often limited to case studies, as is apparent from the literature overviews of Brown et al. (2010), Campbell (2007) and Laudal (2011). Reputation is often regarded as one of the most important motivations for companies to care about CSP (Bovenberg, 2002; Fombrun and Shanley, 1990; Graafland and Smid, 2004; Logsdon and Wood, 2002). A relevant condition of a well-functioning reputation mechanism is that information about the past actions of the company is available to all potential future trading partners. Both non-governmental organizations (NGOs) and media and mandatory rules for CSP reporting can contribute to enhanced transparency of a company's CSP. Recently, the European Commission announced that it is considering putting forward a legislative proposal requiring companies to publish information on their management of environmental and social issues.<sup>5</sup> It is therefore important to study the empirical effects that such policies might have on CSP.

Given this present state of research, this chapter is the first research into the influence of price and technological competition on CSP, while simultaneously offering a quantitative analysis of several institutional factors on CSP. To empirically test our conceptual framework, we set out a survey to collect information about economic and institutional drivers of CSP. We combine the data from this survey with an independent source of CSP ratings from an international rating agency (Sustainalytics).

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<sup>5</sup> See: [http://ec.europa.eu/environment/resource\\_efficiency/news/up-to-date\\_news/08032013\\_en.htm](http://ec.europa.eu/environment/resource_efficiency/news/up-to-date_news/08032013_en.htm) (accessed on 1-5-2014).

The content of this chapter is as follows. First, in Section 2.2 we present the conceptual framework. In Section 2.3, we describe the sample and methodology and in Section 2.4 we present the empirical analysis. Section 2.5 discusses the main findings and Section 2.6 concludes with policy implications.

## **2.2 Conceptual framework**

In our conceptual framework, we take our starting point in institutional theory. Campbell (2007) provides a theoretical analysis of the economic and institutional drivers for companies to act in socially responsible ways. He develops various hypotheses relating CSP to the degree of competition, government regulation, NGOs, business schools, industrial organizations and dialogues with various stakeholder groups. Reputation is often regarded as one of the most important motivations for companies to act in socially responsible ways (Bovenberg, 2002; Graafland and Smid, 2004). If CSP lacks support from fundamental economic and institutional conditions, stakeholders are unlikely to reward good behavior or sanction bad behavior and therefore do not support the working of the reputation mechanism to improve CSP (Brammer et al., 2012).

As stressed by the new institutional economics (North, 1990; Williamson, 1985), public laws that force agents to behave in a cooperative way may be rather costly, because writing down all contingencies in law and enforcement costs may generate many transaction costs varying from negotiations to legal procedures. In view of these often high transaction costs of the legal system, other more informal institutions have been developed to reduce market imperfections. These informal institutions rely on implicit, self-enforcing contracts in repeated game situations. Implicit contracts are especially efficient if the information is distributed to all potential future trading partners by a reputation mechanism. The reputation mechanism extends the bilateral punishment to multilateral punishment, thereby making reputation a more valuable asset for the company.

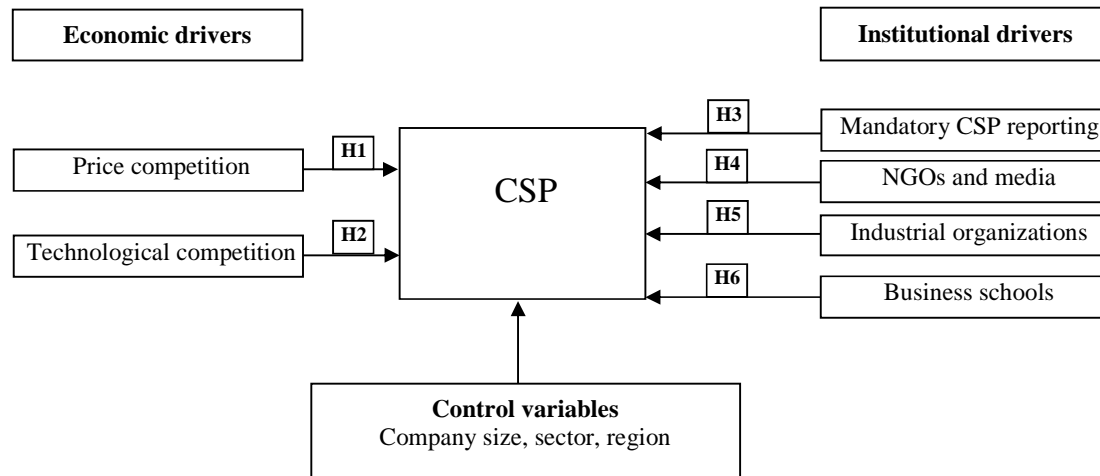
The reputation mechanism only works well if several conditions are met (Bovenberg, 2002). First, the reputation mechanism is more effective if a good reputation is collectively rewarded and a bad reputation collectively punished. This depends to a large extent on the competitiveness on the market. If competition is absent, stakeholders cannot effectively punish a company for low CSP, as alternatives are lacking. On the other hand, if competition is too fierce, companies may reduce their time horizon, making future punishment and rewarding less valuable. Second, the strength of the reputation mechanism depends on the availability of the information about the past performance of the company. The more information is available, the more transparent is the company's performance and the easier it is for its stakeholders to punish and reward the company.

Figure 2.1 depicts the conceptual framework that we use in this chapter. Below we shortly discuss the three sets of economic and institutional factors that contribute to fulfilling



the conditions of the reputation mechanism: price and technological competition, transparency in CSP and collective self-regulation of CSP.

**Figure 2.1 Conceptual framework**



### *Price competition*

Stakeholder's reactions mainly originate from the market on which stakeholders and companies interact. The market pressure on individual companies to integrate CSP into their strategic policies depends heavily on the market response of customers to the company's CSP. Customers may punish companies if they directly damage customer's interests, for example when companies provide low quality products (Anderson et al., 1994; Archer and Wesolowsky, 1996; Kimes, 1999; Landon and Smith, 1997). A high CSP rating may boost a company's brand value (Drumwright, 1996) which is among the company's most valuable assets, because it enables the company to attract more customers (Smith, 2005) and demand an extra price premium (McWilliams and Siegel, 2011). Several empirical studies indeed show that a good social reputation of a company facilitates the support of consumers by buying or not buying the goods (Alexander, 2002; Bhattacharya and Sen, 2004; Brown and Dacin, 1997; Handelman and Arnold, 1999; Maignan, 2001; Smith, 2003) or by the willingness to pay a price premium for social product features (Auger et al., 2003; McWilliams and Siegel, 2011).

Market responses to CSP are more effective if the company faces market competition from other companies. Campbell (2007) hypothesizes that the effect from price competition on CSP is non-linear. In situations where competition is weak or virtually nil, a low CSP reputation will not pose a serious threat to the company's sales or profitability, because under such conditions, customers and suppliers will face high costs to boycott the company (Glazer et al., 2010). It is therefore expected that monopolies tend to result in irresponsible corporate behavior, because monopolistic companies often lack a strong strategic motivation for CSP.

But also companies operating on perfect competitive markets may care less about CSP. The theory of slack resources predicts that the availability of slack (financial and other) resources provides a company with more opportunity to invest in CSP (Waddock and Graves, 1997). But if companies are operating on a market where price competition is very fierce, the profit margins will tend to be low. As a result, these companies have less financial resources to make CSP related investments of which the revenues only accrue in the long run. Segelod (2000) finds that the scope for long-term investments decreases when profit is low, because companies need to have a sufficient cash flow to be able to develop their long-term project and make them profitable. Since CSP might be costly for the company in the short run, companies supplying in non-branded, price sensitive consumer markets face therefore high barriers to implement CSP (Van de Ven and Jeurissen, 2005), because any cost disadvantage will harm their market share. Another argument why financial performance may be a precursor of CSP is the ‘noblesse oblige’ view. High and consistent organizational success may create a sense of obligation among executives to give back to the community (Orlitzky, 2008).

A case in point is the textile sector during the late 1990s: increasing competition and a stagnating clothing market put considerable pressure on financial returns and triggered low cost strategies. CSP suffered as a result. For example, in the 1990s C&A was the only clothing company that was certified for the ISO14001 standard. However, in 2000 C&A halted its efforts for ISO14001 certification in several European countries due to the heavy administrative burden: the internal and external audits required for ISO certification were putting too much additional pressure on C&A staff, and so these tasks were reduced to a minimum. Van de Ven and Jeurissen (2005) therefore conclude that CSP by individual companies is more favourable in imperfect (oligopolistic) markets.

*H1: There is a non-linear relationship between price competition and CSP. If price competition is weak, more competition fosters CSP. If competition is fierce, more price competition decreases CSP.*

### *Technological competition*

Although Campbell (2007) only discusses the influence of price competition, companies also compete on innovation (Vickers, 1995). In the free market perspective of the Neo Austrian School of economic thought, economic growth does not result from price competition, but rather from the competition in introducing new consumer goods, new technologies, sources of supply and new types of organizational structures (Schumpeter, 1976). This kind of competition commands a decisive cost or quality advantage that strikes not at the margins of the profits and outputs of the existing companies, like price competition, but at the way in which the company is constituted. In a competitive environment with intense technological competition, innovation is conceded to be essential for survival. This type of competition may provide a positive impulse to CSP, as CSP may be a means to innovation. For example,

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environmental management systems enable the development of strategic resources which can have a positive effect on innovation abilities in general and thus also on technological environmental innovations (Fronzel et al., 2007; Wagner, 2007). Besides reputation, innovation is therefore often considered as a relevant motivation for CSP. Several studies indeed find that CSP is positively related to innovation (Hull and Rothenberg, 2008; McWilliams and Siegel, 2000). Empirical evidence suggests that the causality may also go from innovation to CSP. The reason is that innovative companies are already engaged in improving production processes and products and therefore have overcome management barriers such as the lack of financial resources or know-how such that they are more likely to be capable of undertaking organizational changes and absorbing new costs (Ziegler and Nogareda, 2009).

*H2: Technological competition fosters CSP.*

#### *Transparency in CSP*

Besides market competition, an important condition for an effective reputation mechanism is that stakeholders are well-informed. Transparency in CSP depends on formal as well as on informal institutions. In Europe, the European Commission and European governments play a relatively large role in encouraging (explicit) CSP through endorsement, facilitation, partnership and soft regulation for CSP (Matten and Moon, 2008). For example, the government can require companies to publish information about environmental and labor issues in their annual report or foster the growth and professionalization of CSP rating agencies by laying down certain CSP information requirements and quality standards. This contributes to transparency and enforces the reputation mechanism (Dubbink et al., 2008).

An important informal institution that enforces the transparency in CSP is the presence of NGOs and media that actively monitor the CSP of a company and keep the public and government officials informed. The role of NGOs and media has risen due to the changes in the economic environment during the last decades. The technological development has increased communication possibilities and made it easier for NGOs and media to communicate with the public and the companies. As a result, stakeholders are sooner or more often being informed about the actions of companies. Especially multinationals are targets of the NGOs, in particular those that are brand-based and most vulnerable to consumer boycotts. Whereas, as a consequence of globalization, companies have more power and freedom, they have also been more frequently targeted by NGOs, who have adopted increasingly sophisticated strategies in dealing with them (Kaler, 2000). When companies cross borders, there may therefore be a stakeholder multiplier effect that stimulates companies to engage in CSP and take measures to prevent social and environmental incidents (Laudal, 2011).

*H3: Mandatory CSP reporting fosters CSP.*

*H4: Monitoring by NGOs and media fosters CSP.*

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*Collective self-regulation*

CSP of individual companies can be strengthened by industrial organizations. The industrial organizations may provide a platform for learning and experimenting. Under pressure from market forces and signals from members, the industrial organization may start to set up cooperation between members and seek to influence other members that are not yet fully aware of the threats or opportunities posed by the CSP trends that are evolving in the market place. In this way, the industrial organization acts as a promoter of CSP by providing a common norm for the companies in the industry, providing information on CSP and develop CSP tools fitting the needs and context of the companies. Furthermore, as members of industrial organizations interact more frequently with their peers, they are more likely to develop a long-term strategy on their business and interests (Campbell, 2007). Therefore a virtuous circle may arise in which the various members strengthen each other through the industrial organization.

Besides the reputation and innovation effects discussed above, another motivation for industrial organizations to introduce their own regulations to ensure responsible practices stems from the threat of government regulation (Campbell, 2007). In that case, self-regulation is negatively strategically motivated: by reducing harm to stakeholders through self-regulation, industrial organizations aim at prevention of regulation by the state, because state regulatory intervention may be very costly for their members (Laudal, 2011; Moon et al., 2005).

Besides industrial organizations, companies can cooperate in networks that are aligned to business schools. Aguilera and Jackson (2003) argue that the legitimacy of managerial goals, including those related to CSP, depends on managers' different worldviews and that these worldviews are influenced by their educational backgrounds. Managers in the United States, for example, typically receive education with a strong emphasis on finance and shareholder value as management ideology. Alternatively, business schools may provide more substantive awareness and training on CSP that form the mindsets of executives. Fligstein (1990) found that corporate executives' management styles depend on the type of training they received in business schools. While virtually non-existent a few decades ago, business ethics has been integrated into the curriculum of most MBA programs. Business schools provide a normative framework, because managers seek to act in ways that are valued by other managers and other important role models in their environment. The training on business schools provides an important benchmark for this (Campbell, 2007). Hence, companies will be more likely to favour CSP if their training in business schools paid serious attention to it and if business schools continue to inform them through refresher courses and business publications on CSP.

*H5: Information on CSP by industrial organizations fosters CSP.*

*H6: Information on CSP by business schools fosters CSP.*

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*Control variables*

Besides the variables described above, CSP depends on various influences that we control for in the empirical analysis.

First, CSP is affected by company size. Small companies differ in many respects from large companies (Jenkins, 2009; Spence, 1999). Due to a lack of resources and experience, small companies are often less able to explicitly recognize CSP issues and are less known with important CSP standards (Lepoutre and Heene, 2006). Time and a lack of financial resources, skills and knowledge are commonly identified as constraints to CSP by small and medium-sized enterprises (Studer et al., 2006). Also the reputation mechanism may work differently for smaller companies, as NGOs for example will have more difficulties (and fewer incentives) to monitor smaller companies.

CSP also depends on the sector in which the company operates. CSP differs widely across industries (Wirl et al., 2013). The nature of the production processes or products determines the type of social and environmental externalities that a company generates (Brown et al., 2010). Also the incentive to pursue an active CSR policy may differ for different sectors, as for example the working of the reputation mechanism can vary among sectors. Brammer and Pavelin (2006) find that environmental performance affects reputation positively in none but the chemical, consumer products, resources and transportation sector. Three of these sectors are commonly identified as industries with salient environmental issues.

Finally, CSP is conditioned on the culture and wider institutional environment in which the company operates. In an extensive welfare state with a major role for trade unions, the role and responsibilities of businesses in society with regard to social and environmental issues have been traditionally marginal. The main task left for companies is to run their activities in a rational and efficient way, while respecting the outcomes of the negotiations with trade unions as well as the extensive government regulation with regard to safety and health standards, equal opportunities, waste disposal, pollution and all other social and environmental issues regulated by law (De Geer et al., 2009). CSP will therefore remain more implicit and results from mandatory requirements (Matten and Moon, 2008). As in Anglo Saxon countries like the UK and the US the welfare state is less apparent than in for example Germany, one expects a greater potential for CSP in the Anglo Saxon countries. However, the social environment that gives rise to an extensive welfare state may also affect the company's orientation. For example, companies operating in countries with a Rhineland model (so called because it is most notably practiced in Germany) may be more inclined to balance shareholder value with the interests of other stakeholders and this may be conducive to CSP. Wirl et al. (2013) note, for example, that Germany and other continental European countries are much more concerned about CSP. Therefore, it is not *a priori* clear what the relationship between region and CSP is.

## 2.3 Sample and methodology

In this section we describe the data and the measures employed to operationalize the conceptual framework.

### *Data*

To collect data, we developed an online survey. The survey was sent in 2010 to 1,346 companies that are rated by Sustainalytics. Of the 1,346 distributed surveys, 212 were returned and completed, resulting in a response rate of 15.8 percent.

Before setting out the survey, we tested the survey by interviewing ten executives from companies in various sectors. The aim of the interviews was to explore measures to be used to measure the various factors in order to secure content validity. If the interviewees did not understand the questions or measures, we had the opportunity to seek, in interaction with the interviewees, for other phrasings for the same concept. In this way, we avoided vague questions that could lead to misinterpretation by the respondents.

To address the potential concerns of social desirability bias, we used the survey only for information on the independent variables. CSP ratings were taken from another source, namely the ratings of Sustainalytics. This also reduces concerns of common source bias (Podsakoff et al., 2003). Although there is much less reason to expect social desirability bias in the responses to the questions in the survey (as these are less related to social expectations), we further reduced the potential for social desirability bias by explaining to the respondents in a cover letter that the survey was confidential and to be used for research purposes only. The identity of the participants would remain anonymous. The respondents thus had little reason to misrepresent their company.<sup>6</sup> Since the CSP of any individual company will be too weak to inversely affect the generic economic and institutional environment of the company, it is not likely that simultaneity bias will occur.

For the measurement of CSP we used the ratings of Sustainalytics. Sustainalytics is a highly qualified rating agency. In 2010 it was voted Best ESG Research House by IPE/TBLI Group. It provides ESG research for the Newsweek Green Rankings and the STOXX Global ESG Leaders index family. Sustainalytics develops detailed sustainability data for large international companies. Companies are analyzed by local research partners using one consistent methodology, designed in active dialogue with experts, users and companies. Sustainalytics applies strict criteria for analyzing companies and has adopted a stringent quality management system of peer reviewing to ensure consistency and quality. Analysts consult a large variety of sources to assess a company, such as public reporting of a company, in addition to information from NGOs, international institutions, press and governments. Company profiles are continuously updated to include the latest information, such as

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<sup>6</sup> Several studies show that self-reported behavior and actual behavior are strongly correlated (e.g. Fuj et al., 1985; Gatersleben et al., 2002; Warriner et al., 1984).

occurring controversies. When a company profile is updated, Sustainalytics initiates a dialogue with the company to give it the opportunity for feedback.

Sustainalytics assesses companies on about 150 indicators. Generic indicators are supplemented with indicators specific to the sector in which the company operates. The company's performance is analyzed on several topics, categorized in three overarching categories: environment, social and governance (ESG). CSP is analyzed on the use of policies (like policies on discrimination), the implementation of instruments (like programs to increase diversity) as well as on impacts (like board gender diversity). In our study, we use the overall company score for 2010, which is calculated by Sustainalytics as a weighted sum of the individual ESG indicators. The average ESG-score of the respondents to the survey (59.37) and its standard deviation (10.17) did not differ significantly from the average ESG-score (56.49) and standard deviation (10.18) of the 1,346 companies to which the survey was sent. This indicates that the respondents are representative for the total sample of companies rated by Sustainalytics.<sup>7</sup>

### *Measures*

Table 2.1 describes the measures. The dependent variable is the ESG-score. Sustainalytics measures the ESG-score within a range of 0 (worst) to 100 (best). The minimum score in the sample is 37.4, the maximum score is 87.4 and the average score 59.4.

The independent variables are measured with survey questions. The degree of price competition and technological competition is measured by using five options ranging from 'virtually none' to 'very intense'. The other independent variables are also measured by five options, ranging from 'not at all' to 'very much'. Table 2.1 shows that companies experience on average quite intense competition (between moderate and intense). Furthermore, the degree of price competition and technological competition are almost the same. The companies in the sample are on average to a small but significant extent subject to mandatory CSP reporting, whereas monitoring by NGOs and media is in between significant and substantial. Companies receive on average between significant and substantial information on CSP from industrial organizations, while the information they receive from business schools appears to play only a minor role.

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<sup>7</sup> In order to test the reliability of the Sustainalytics data, we did a comparative statistical analysis of ESG ratings of Sustainalytics and the ESG ratings of Thomson Reuters' ASSET4 for companies that are rated by both rating agencies. For 2010, we found a bivariate correlation coefficient of 0.66 ( $p < 0.01$ ), which indicates a high convergence. We did a similar analysis for Morgan Stanley's ESG ratings (previously KLD) and found a bivariate correlation coefficient of 0.63 ( $p < 0.01$ ) for the ratings in 2010 for companies that are rated by both Sustainalytics and Morgan Stanley's ESG ratings. These results contribute to the confidence of the reliability of the Sustainalytics data.

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**Table 2.1 Measures**

Variable	Content	Measurement	Mean	SD
<b>Dependent variable</b>				
CSP	ESG-score company	A	59.4	10.2
<b>Independent variables</b>				
Price competition	The intensity of price competition	B	3.5	1.2
Technological competition	The intensity of competition on quality and product innovation	B	3.4	1.1
Mandatory CSP reporting	CSP reporting is subject to mandatory rules	C	2.9	1.3
NGOs and media	NGOs and media monitor the company's CSP	C	3.4	1.0
Industrial organizations	Industrial organizations provide information on CSP	C	3.2	1.0
Business schools	Business schools provide information on CSP	C	2.6	0.9
<b>Control variables</b>				
Company size	Natural logarithm of average total assets and revenues		9.6	1.6
Sector	Energy	D	10%	
	Material	D	12%	
	Industrial	D	17%	
	Consumer	D	19%	
	Healthcare	D	5%	
	ICT	D	8%	
	Financial	D	29%	
Region	Anglo Saxon non-EU: Australia, Canada, US	D	20%	
	Anglo Saxon EU: Ireland, UK	D	10%	
	Mediterranean Europe: Greece, Italy, Portugal, Spain	D	15%	
	Scandinavia: Denmark, Finland, Norway, Sweden	D	11%	
	Continental Europe: Austria, Belgium, France, Germany, Luxembourg, Switzerland, The Netherlands	D	35%	
	Asia: Hong Kong, Japan, Singapore	D	9%	

A Rating between 0 and 100.

B 5 options: 'virtually none' (1), 'moderate' (2), 'considerable' (3), 'intense' (4), 'very intense' (5).

C 5 options: 'not at all' (1), 'negligible' (2), 'small but significant' (3), 'substantial' (4), 'very much' (5).

D Dummy variable

To measure the control variables, we used data from Sustainalytics for sector and country and data from S&P Capital IQ for company size.<sup>8</sup> For sectors, dummies were used for seven categories based on the Global Industry Classification Standard (GICS). About 58 percent of the companies in the sample operate in manufacturing sectors and 42 percent in service sectors. Regional dummies are used to indicate the location of the headquarters of the companies. A majority of the respondents are from European countries (71 percent), only 9 percent from Asian countries. Chinese companies are not included in this sample.

<sup>8</sup> S&P Capital IQ is a multinational financial information provider headquartered in New York City and a division of Standard & Poor's. It covers 88,000 companies globally with over 5,000 unique financial data items and 2,500 industry-specific items.



## 2.4 Empirical analysis

Before performing econometric analyses, we screened the data by testing for heteroskedasticity and outliers. Crossplots between the dependent and the independent variables showed no heteroskedasticity, whereas boxplots indicated no problematic outliers. Since our sample is reasonably large, non-normally distributed variables will not pose serious problems. Furthermore, we tested for multicollinearity of the independent explanatory variables by examining the variance inflation factor (VIF) (Hair et al., 1998). For each variable we checked whether the variance inflation factor was smaller than five, which was met for all cases.

### *Correlation analysis*

Table 2.2 reports the results of the bivariate correlation analysis. The first column shows that CSP is positively correlated to technological competition, monitoring by NGOs and media, mandatory CSP reporting and CSP information provided by industrial organizations. For price competition and CSP information provided by business schools, the correlation is insignificant. Table 2.2 thus provides a first indication that some economic and institutional variables are related to CSP.

**Table 2.2 Results correlation analysis<sup>a</sup>**

	CSP	Price competition	Technological competition	Mandatory CSP reporting	NGOs and media	Industrial organizations
Price competition	.09					
Technological competition	.21**	.43**				
Mandatory CSP reporting	.25**	.09	.07			
NGOs and media	.35**	.18*	.13	.32**		
Industrial organizations	.16*	.19**	.15*	.23**	.25**	
Business schools	.13	.15*	.08	.34**	.25**	.36**

<sup>a</sup> Spearman's rho; \* p<0.05, \*\* p<0.01.

### *Regression analysis*

In this subsection, we use multiple regression analysis to test the hypotheses. Table 2.3 reports the estimation results. We estimated three models: the restricted model in which we only estimate the control variables (model 1), the unrestricted model in which we estimated the control variables and all the drivers together (model 2) and the unrestricted model in which we also included a non-linear effect from price competition (model 3).<sup>9</sup>

<sup>9</sup> For price competition squared, we used centering (i.e. subtracting the means before creating the powers or the products), which is a usual method to diminish multicollinearity with price competition.

**Table 2.3** Results regression analysis<sup>abc</sup>

	Model 1	Model 2	Model 3
Price competition (H1)		-.07	-.48
Price competition squared (H1)			.41
Technological competition (H2)		.20**	.12**
Mandatory CSP reporting (H3)		.15*	.15*
NGOs and media (H4)		.16*	.15*
Industrial organizations (H5)		.01	.00
Business schools (H6)		-.08	-.07
Company size	.46**	.38**	.39**
Energy	.37**	.35**	.33**
Material	.34**	.31**	.30**
Industrial	.30**	.26**	.26**
Consumer	.18*	.12	.10
Healthcare	.18*	.16*	.16*
ICT	.23**	.21**	.20**
Anglo Saxon non-EU	.09	.13	.14
Anglo Saxon EU	.08	.05	.05
Mediterranean Europe	.27**	.27**	.25**
Scandinavia	.22*	.20*	.21*
Continental Europe	.20	.20	.20
R <sup>2</sup>	0.33	0.41	0.42
Adjusted R <sup>2</sup>	0.29	0.36	0.36
$\Delta R^2$		.08**	.01
F	7.78**	7.22**	6.95**
N	212	212	212

<sup>a</sup> Dependent variable is CSP.

<sup>b</sup> Standardized coefficients; \* p<0.05, \*\* p<0.01.

<sup>c</sup> The base category for sector is the financial sector, for region Asia.

As the significance of  $\Delta R^2$  of model 1 and 2 shows, including the various drivers significantly improves the model fit. The second column shows that technological competition, mandatory CSP reporting and monitoring by NGOs and media appear to be significant contributors to CSP, supporting H2, H3 and H4. The effects of the other information variables are not significant, and therefore no evidence is found for H5 and H6. Also the effect of price competition on CSP is insignificant. The insignificant  $\Delta R^2$  of model 2 and 3 shows that adding a non-linear effect of price competition does not significantly improve the model fit. Furthermore, the positive sign of price competition squared is opposite to prior expectation. Hence, we find no support for H1.<sup>10</sup> Finally, we find several significant influences of various control variables on CSP. The company size has a relatively large and significant positive effect on CSP. Furthermore, many sectors are found to be more prone to CSP than the

<sup>10</sup> If we reestimate the model using the bootstrapping method (with 1000 resamples) to calculate standard errors, the findings do not change: H2, H3 and H4 are supported, and H1, H5 and H6 are not.

financial sector (which is the reference sector), which is to be expected as particularly environmental issues are less salient in the financial sector compared to most other sectors (Kolk et al., 2001). Finally, we find that companies from Mediterranean Europe and Scandinavia have higher levels of CSP than companies in Asia (which is the reference region). The results will be further discussed below.

## **2.5 Discussion**

In this chapter, we investigated the joint influence of two economic and four institutional factors on CSP: price competition, technological competition, mandatory CSP reporting, monitoring by NGOs and media and self-regulation by industrial organizations and business schools. For three out of six hypotheses, we find empirical support.

First, our research shows that it is important to make a distinction between price competition and technological competition. We tested for a linear and non-linear influence of price competition on CSP, but no significant effects were found. Therefore, we find no support for the proposition of Campbell (2007) that an increase in competitiveness stimulates CSP in weak competitive markets, but discourages CSP in markets with fierce competition. Whereas price competition does not affect CSP, our research shows that technological competition is an important economic condition for CSP. More competition provides stakeholders on the product market with opportunities to reward companies with a good CSP profile and punish companies that do not meet the CSP expectations of stakeholders. Moreover, if companies face more technological competition, the branding of their products will be of critical value and this generates an important strategic motivation for upholding a good CSP reputation. Besides reputation considerations, technological competition may also motivate companies to care about CSP more directly, as CSP may lead to more innovation and therefore a competitive advantage when technological competition is present.

Furthermore, transparency in CSP is found to be a crucial background condition for good CSP. Companies that are subject to mandatory CSP reporting and therefore are more transparent will experience stronger CSP reputation effects and this motivates them to a more active CSR policy. By making information on CSP more transparent, sustainability rating agencies will have more access to information. This will foster self-regulation by market participants, analogues to the effect of corporate financial disclosure in the past (Fung et al., 2006). The rise of the financial reporting system was not a fully autonomous process. The American government played a major role by setting up a basic reporting framework in 1933-1934. This extended the scope and reliability of the information collected by rating agencies considerably and consolidated their position as a vital player in corporate financial reporting. Likewise, a basic legal framework in CSP reporting could foster self-regulation in CSP (Dubbink et al., 2008).

Also for monitoring by NGOs and media, we find a significant effect on CSP. Like mandatory reporting, active monitoring by NGOs and media enforces the reputation mechanism by making company operations more transparent. The tactics of NGOs may vary

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from appealing directly to the companies, organizing demonstrations, pressuring local governments and mobilizing media campaigns. Also the press may independently operate as a watchdog of the company's CSP. That the media and NGOs really have an impact on the actions of a company is also highlighted by various cases, like the Kenosha case of Chrysler, the Brent Spar case of Shell, the Dolphin-Tuna case or the construction fraud in the Netherlands (Grolin, 1998; McMahon, 1999; Wright, 2000).

We find no evidence that collective self-regulation through industrial organizations and business schools stimulates CSP. However, it might be expected that the transparency generated by mandatory reporting and monitoring by NGOs and media and the resulting enforcement of the reputation mechanism will make industrial organizations and business schools aware of the strategic importance of integrating CSP in the business organization which will induce them to inform their members. The fundamental driver of this process is therefore the transparency in CSP through mandatory CSP reporting and monitoring by NGOs and media.

Finally, we find several significant effects of control variables. First, although all companies in our sample are large (i.e. have more than 500 employees), we find that size has a significant positive effect on CSP. This shows that the relationship between CSP and company size also holds within a group of large companies. Furthermore, we find that companies from European countries with a fairly large welfare state outperform companies from Asia and from Anglo Saxon countries within or outside the EU with a smaller welfare state. The interpretation of this result is complicated, because the regional dummies may capture several different types of influences, such as culture and general government regulation. Nevertheless, our results do provide an indication that the larger potential for CSP in Anglo Saxon capitalism is not confirmed. Rather the opposite seems true. This may be due to the broader orientation than on only shareholder value in European countries. But it may also indicate that a higher level of government regulation stimulates rather than crowds out the inclination of companies to take responsibility for social welfare by signaling the high priority that social and environmental issues receive in society and the democratic support for them. CSP may then also be a way for companies to prevent costly government regulation. CSP is also found to depend on the sector in which the company operates. In particular, we find that companies operating in the energy, material, industrial and ICT sector generally have a higher CSP than companies in other sectors.

## **2.6 Policy implications**

The results of the empirical analysis have important policy implications at the institutional level.

First, we find no support for the argument of Van de Ven and Jeurissen (2005) that CSP is hampered by competition. They argue that in a perfect competitive market, individual companies will have hardly any room to pursue a proactive CSR policy, because any cost disadvantage will harm their market share. This would mean that antitrust policy can easily

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collide with sustainability. Since social or environmental investments are costly in the short run, whereas the long-term benefits are uncertain, enforcing competition may reduce the incentive to CSP. The guidelines of the European Commission for the application of Article 101 TFEU (formerly Article 81 of the EC Treaty) state that consumer welfare is the only goal of EU antitrust law.<sup>11</sup> Limitations to competition can only be justified by improvements of efficiency, either by lowering costs, increase in quality or more opportunities for innovation. Practices that contribute to overall welfare by improving CSP are only allowed if consumers obtain a fair share of the resulting benefit. The Dutch antitrust organization NMa states that an agreement is good if it is profitable for the companies involved as well as beneficial to consumers (NMa, 2010). Our results show, however, no evidence of a negative influence of price competition or price competition squared. This suggests that there need not be a trade-off between economic benefits from more competition (the usual policy goal of competition policy) and social or environmental benefits. On the contrary, we do find evidence that technological competition stimulates CSP. For CSP related government policies, it therefore seems important to distinguish price and technological competition as two distinct kinds of competition.

Second, our study indicates that the recent policy proposal of the European Commission requiring companies to publish information on their management of environmental and social issues may foster CSP. A review of mandatory and voluntary sustainability reporting standards and legislation in 30 countries reveals that the increasing number of reporters seems to go hand in hand with an increasingly dense regulatory network of international and national standards, codes and guidelines as well as legislation for sustainability reporting (KPMG, 2011). Our study provides support for this increasing regulation of reporting standards in the last decade.

More transparency through social and environmental reporting will also strengthen the role of NGOs and media. Our research shows that the media and NGOs are crucial antecedents of CSP. The government should therefore take care that the quality of the media is protected and may support NGOs by providing subsidies directed to their watchdog function.

Finally, with respect to the regional effects, we find no indications that a welfare state and government regulation in Western European countries crowd out CSP. Capitalism that balances free market operation and government regulation seems coherent with CSP. This suggests that non-intervention of governments is not a precondition for companies to take responsibility for internalizing externalities. The role of governments as facilitator instead of regulator (or withdrawer) seems to be most appropriate to encourage CSP.

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<sup>11</sup> See: [http://europa.eu/legislation\\_summaries/competition/firms/126114\\_en.htm](http://europa.eu/legislation_summaries/competition/firms/126114_en.htm) (accessed on 1-5-2014).

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## Chapter 3

### External and internal drivers of CSP

#### 3.1 Introduction

Theoretical and empirical studies on the drivers of corporate social performance (CSP)<sup>12</sup> have shown that CSP is influenced by a multitude of variables. Recently, research into CSP has become more focused on the institutional roots of CSP (Aguilera and Jackson, 2003; Brammer et al., 2012; Campbell, 2007; Matten and Moon, 2008). Companies do not operate in a vacuum: national and international institutions shape corporate decisions by giving rise to different competitive environments that affect the behavior of important external stakeholders of the company.

Other theoretical studies have conceptualized CSP as resulting from a combination of external factors and internal factors, aiming to integrate the role of economic and institutional conditions with internal factors that give rise to CSP (Brown et al., 2010). The advantage of this type of literature is that it provides more insight into the interaction between external and internal factors of CSP. When researchers only focus on economic and institutional factors that drive CSP, there is insufficient consideration for differences in CSP at the individual company level given the institutional environment. On the other hand, studies that only consider internal factors ignore contextual factors that might also influence and explain CSP.

In this chapter, we test the influence of external and internal factors of CSP simultaneously. Because of the fragmented character of the available empirical studies, there is little knowledge about how economic and institutional conditions interact with strategic motivations of companies towards CSP. The empirical validity of the theoretical models that aim to integrate institutional theory with a perspective of the internal factors that drive CSP therefore remains very fragile. As the relationships between external economic and institutional drivers and internal factors remain a black box from an empirical point of view, policy advises based on integrative theoretical models of the company are still ill-founded. We aim to fill this gap by testing a conceptual framework that integrates various external economic and institutional factors with internal strategic motivations that influence CSP using a large sample of European companies that include large companies as well as small and medium-sized enterprises (SMEs). In this chapter, we explicitly model the structure of the drivers, by distinguishing various economic conditions (price competition and technological competition) and institutional conditions (transparency in CSP through monitoring by non-governmental organizations (NGOs) and media), and analyze how their influences on CSP are mediated by stakeholder's responsiveness to CSP on the capital, product and labor market and

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<sup>12</sup> In literature, CSP is often distinguished from corporate social responsibility (CSR). In the model of Wood (1991, 2010), CSR is one of the dimensions of CSP, namely the principle dimension. Besides this dimension, CSP also encompasses the processes of social responsiveness and impacts of CSR.

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by the company's perception of strategic benefits of CSP, which is a direct antecedent of CSP.

Given the present state of research, this chapter makes several important contributions. First, we provide insight into how various economic and institutional conditions affect CSP. Empirical research in which economic and institutional drivers of CSP are simultaneously studied is still rare. Campbell (2007) identifies various economic and institutional conditions, but does not empirically assess their effects on CSP. Furthermore, although he identifies competition as an important driver of CSP, he does not distinguish price and technological competition, although both may affect CSP differently.

Second, we explicitly model the process of the effect of the various drivers on CSP and therefore study how the influence of economic and institutional drivers is mediated by stakeholder's responsiveness and internal company motivational factors. Although theoretical research has already developed hypotheses that open up the black box of how economic and institutional conditions may influence CSP (Aguilera et al., 2007; Brammer et al., 2012; Campbell, 2007; Doh and Guay, 2006; Gjørlberg, 2009; Jackson and Apostolakou, 2010), there is no empirical research that provides insight into how these influences are mediated by changing stakeholder's responsiveness on capital, product and labor markets and internal company motivations towards CSP. In our empirical analysis, we use structural equating modeling to study these effects and make use of an extensive survey into CSP of large companies and SMEs. The survey includes 5,317 companies from twelve European countries of which the majority of companies are small and medium-sized.

The content of this chapter is as follows. First, in Section 3.2, we present the conceptual framework. Section 3.3 describes the sample and methodology. Section 3.4 presents the empirical analysis and in Section 3.5 we discuss the main findings. Section 3.6 concludes with policy implications.

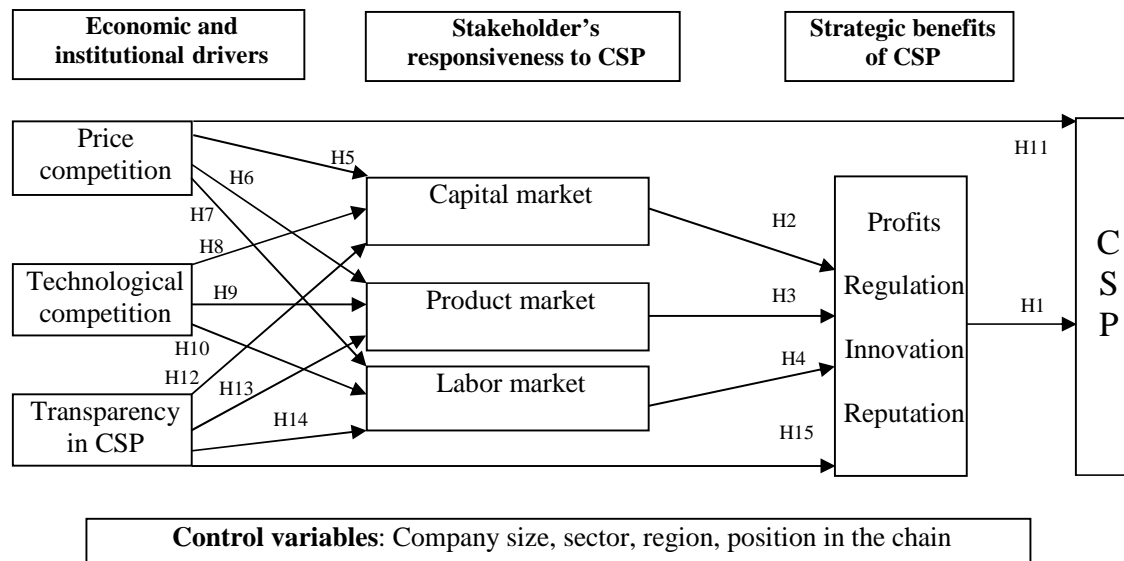
### **3.2 Conceptual framework**

In our framework, we take our starting point in institutional theory that explains CSP by reference to institutional conditions that make it more likely that companies act in socially responsible ways (Aguilera and Jackson, 2003; Brammer et al., 2012; Campbell, 2007; Matten and Moon, 2008). For example, Campbell (2007) develops various hypotheses relating CSP to the degree of competition, government regulation, monitoring by NGOs and media, business schools, industrial organizations and dialogues with various stakeholder groups. Other theoretical studies have extended the institutional analysis with an analysis of drivers from the internal perspective of the company (Brown et al., 2010). The internal business environment includes, amongst others, managers' beliefs and motivations. The idea underlying this type of models is that external drivers affect company behavior only in so far and through the way in which they are taken up by mediating structures, like the behavior of consumers and internal drivers.

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In our conceptual framework, we explicitly model the structure of drivers and build on the theory of Brown et al. (2010) that institutions influence CSP by triggering internal drivers, but also extend the model by distinguishing other external factors that mediate the influences of economic and institutional conditions. The conceptual framework combines notions from institutional theory, stakeholder theory and the resource-based view of the firm. As Figure 3.1 shows, we assume that economic and institutional conditions influence the responsiveness to CSP of stakeholders on the capital, product and labor market. The stakeholder's responsiveness will affect the company's perception of the strategic benefits of CSP which can be viewed as a direct antecedent of CSP. The rationale for this causality chain is that if CSP lacks support from fundamental economic and institutional conditions, stakeholders are unlikely to reward good behavior or sanction bad behavior (Brammer et al., 2012).

**Figure 3.1 Conceptual framework**



Below we describe each of the model blocks in more detail, starting with the right-hand side of Figure 3.1 and working back to the factors depicted at the left-hand side of the figure.

#### *Strategic benefits of CSP*

Perceptions of the strategic value of CSP are an important antecedent for behavior. Scholars have distinguished several types of benefits (Carroll and Shabana, 2010; Kurucz et al., 2008). One of the most frequently mentioned benefits concerns reputation (Fombrun and Shanley, 1990; Logsdon and Wood, 2002). As predicted by the resource-based view of the company, reputation is a very valuable asset for companies. Underlying the resource-based view of the company is the premise that differences in company performance directly occur as a result of



the collection of resources companies acquire (Branco and Rodrigues, 2006; Valente, 2012). Because reputations are complex and the main drivers of reputation creation are embedded inside the company, they are likely to be associated with a high degree of causal ambiguity, which reduces the extent to which competitors may imitate them (Galbreath, 2005). Orlitzky (2008) notes that from theoretical and practical perspectives, organizational reputation ranks as one of the most important mediating variables linking CSP to corporate financial performance (CFP). Scandals and accidents can destroy reputations that often require a long time to build up. In their study into the company's motives for CSP, Brønn and Vidaver-Cohen (2009) find that improving the company's reputation ranks at the first place amongst the various motives. A strong CSR program can help reduce the probability of these accidents or limit the reputational damage if they occur (Lougee and Wallace, 2008). Reputational effects of CSP are not only important for external stakeholders, but also to the employees of the company.

CSP is also perceived to be of strategic value because it may contribute to innovation. Empirical evidence suggests that innovation can have a positive effect on the adoption of voluntary environmental programs (Ziegler and Nogareda, 2009). Ziegler and Nogareda (2009) find that the adoption of ISO14001 and an Eco-Management and Audit Scheme (EMAS) is related to environmental product innovation and environmental process innovation. Frondel et al. (2007) and Wagner (2007) show that environmental management systems enable the development of strategic resources which can have a positive impact on innovation capabilities in general and thus also on technological environmental innovations. Managers are therefore expressing interest for approaches to corporate sustainability linked to innovation as a way to increase competitiveness. There is also case-based evidence showing this type of approach may produce the highest potential benefit for both the company and the society (Halme and Laurila, 2009). Once the adoption of environmental innovations takes place and the competition among companies is more environmentally conscious, there will be urgency for companies to focus on social demand and try environmentally friendly alternatives (Lee et al., 2006).

Third, intangibles like reputation and innovation may be ways through which CSP improves the (long-term) financial performance of the company (Tribo et al., 2010). Many empirical studies find a positive relationship between CSP and profitability (Margolis et al., 2007; Orlitzky et al., 2003; Waddock and Graves, 1997) or shareholder value (Tudway and Pascal, 2006).<sup>13</sup> There are several ways in which CSP can affect profitability. For example, it can improve the company's turnover (Brown and Dacin, 1997) and help companies to differentiate themselves from their competitors with the aim of increasing sales and market share. In the case of SMEs operating in business-to-business (B2B) relationships, large

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<sup>13</sup> There are, however, also studies that falsify this relationship and find no indication of a superior performance of socially responsible investment (SRI) funds or SRI indices (Renneboog et al., 2008). Some studies find a neutral or negative relationship (Jones and Wicks, 1999; McWilliams and Siegel, 2000). This also holds more specifically for the environmental dimension of CSP (Cañón-de-Francia and Garcés-Ayerbe, 2009; Filbeck and Gorman, 2004; Telle, 2006).

customers may demand CSP. Investment in social initiatives can be as important as investment in advertising (Gardberg and Fombrun, 2006). CSP can also reduce labor and other costs, as it may lead to more trust in the company, stronger commitment from employees, lower absenteeism and turnover rates, higher productivity, a more positive attitude to work, and better conduct (Sims and Keon, 1997; Turban and Greening, 1996). Furthermore, companies investing in pollution prevention may reduce the costs for energy, waste, packaging and transportation, and the risks for accidents. If a company is environmentally proactive it can lower the costs of complying with present and future environmental regulations and drive down operating costs, resulting from net cost savings through enhanced resource use (Berman et al., 1999; Porter and Kramer, 2011; Shrivastava, 1995)

A final example of strategic benefits from CSP is that companies that integrate CSR into their business may be more successful in avoiding excessive regulatory intervention and in meeting existing regulations. For example, when attempting to enter new markets, companies with a good CSP reputation rarely face the same level of resistance as companies with poor CSP reputations (Lougee and Wallace, 2008).

*H1: An increase in perceived strategic benefits of CSP leads to higher levels of CSP.*

#### *Stakeholder's responsiveness to CSP*

Stakeholder theory has argued that the strategic benefits from CSP depend on the impact of the expectations of key stakeholder such as employees, customers and financiers (Freeman, 1984; Mitchell et al., 1997; Waddock and Graves, 1997). The perceived impact of these stakeholders and the pressure they put on an individual company is related to the perceived stakeholder's responsiveness to CSP on the respective types of markets. First, CSP may invoke reactions on the financial market. Hamilton (1995) found a significant negative impact of the release of information on the use of toxic chemicals on stock prices in the US, whereas Klassen and McLaughlin (1996) found significant positive abnormal returns after a company receives environmental performance awards and significant negative returns after negative environmental incidents.

On the output market, customers may punish companies if they damage customer's interests, for example by providing low quality products (Alexander, 2002). But customers may also care about the broader social impact of the company's operations. A good social reputation may boost a company's brand value (Drumwright, 1996) and increase the demand (Bhattacharya and Sen, 2004; Brown and Dacin, 1997; Handelman and Arnold, 1999) or willingness to pay a price premium (Auger et al., 2003; McWilliams and Siegel, 2011).

CSP may also have favorable effects on the labor market. Companies with a good CSP are able to attract better employees and improve commitment of existing workers (Albinger and Freeman, 2000; Turban and Greening, 1996). Furthermore, several studies have found a positive relationship between the ethical climate in a company and job satisfaction,

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commitment of the employee, (lower) absenteeism and turnover, productivity and favorable job attitudes and behaviors (Barnett and Schubert, 2002; Deshpande, 1996; Treviño et al., 1998; Weaver and Treviño, 1999).

*H2, H3 and H4: A company perceives stronger strategic benefits from CSP if it perceives that stakeholders on the capital/product/labor market are more responsive to its CSP.*

### *Competition*

The responsiveness of stakeholders to CSP and the resulting strategic benefits of CSP are conditioned by the economic and institutional environment of the company (Brammer et al., 2012; Doh and Guay, 2006; Gjølborg, 2009; Jackson and Apostolakou, 2010).

An important economic condition for CSP is competition (Campbell, 2007). In the literature on CSP, competition is often modeled in a generic way. In our framework we distinguish two types of competition: price competition and technological competition by the introduction of new consumer goods, new technologies, sources of supply or new types of organizational structures (Vickers, 1995). Both price competition and technological competition may enforce the effectiveness of market responses to CSP. In situations where price competition is weak or virtually nil, a low CSP reputation will not pose a serious threat to the company's sales or profitability, because under such conditions customers have little choice and hence face higher costs to reward or punish companies for their good or bad CSP. But even if a company is the only supplier in a certain market segment, the possibility of competitors inventing a new product that replaces the monopolist product creates a competitive pattern that is very similar to perfect price competition (Schumpeter, 1976). Also employees have more opportunities to reward or punish companies for their CSP if they can more easily find a job because of the presence of competitors. As a derivative effect, also stakeholders on the capital market will be more sensitive to the CSP of the company if there is sufficient price and technological competition in the product market. If customers can easily shift to other companies, profitability will be more dependent on CSP. Hence, investors have a higher incentive to consider the CSP of companies in their investment decisions. More price and technological competition will therefore enforce responses to CSP on the product, labor and capital market.

*H5, H6 and H7: Stakeholders on the capital/product/labor market are more responsive to CSP if there is more price competition.*

*H8, H9 and H10: Stakeholders on the capital/product/labor market are more responsive to CSP if there is more technological competition.*

In addition, price competition may also have a direct effect on CSP that is not mediated by the response of stakeholders on the capital, product or labor market. For example, Campbell (2007) hypothesizes that fierce competition will discourage CSP, because fierce competition lowers the profit margins. As a result, companies have less financial resources to make CSP related investments of which the revenues only accrue in the long run. The theory of slack resources predicts that the availability of slack (financial and other) resources provides a company with more opportunities to invest in CSP (Waddock and Graves, 1997). Companies supplying in non-branded, price sensitive customer markets face therefore high barriers to implement CSP (Van de Ven and Jeurissen, 2005).

*H11: More price competition reduces the CSP of a company.*

#### *Transparency in CSP*

An important institutional condition for effective stakeholder responsiveness to the CSP of a company is transparency in information about CSP. Institutional theory argues that, for the reputation mechanism to work well, past behavior of agents should be known, not only with respect to their actual trading partners, but also with respect to other potential traders in the market (Bovenberg, 2002). Transparency in CSP depends on the presence of NGOs and media that actively monitor the CSP of a company. Through ICT, the media is increasingly able to inform people about the activities of companies anywhere on the globe. Therefore, the market becomes less anonymous. This makes it easier for stakeholders on capital, product and labor markets to respond to the CSP of a company. Various cases in the past show that NGOs and media really affect customers, like the Kenosha case of Chrysler, the Brent Spar case of Shell and the Dolphin-Tuna case (Grolin, 1998; McMahon, 1999; Wright, 2000).

*H12, H13 and H14: Monitoring of CSP by NGOs and media fosters stakeholder's responsiveness to CSP on the capital/product/labor market.*

The stakeholder's responsiveness to CSP thus provides an important channel through which transparency in CSP affects strategic benefits. Besides, the monitoring of companies by NGOs and media can also directly affect the company's perception of the strategic benefits of CSP, because it will make the company more aware of reputational risks. Furthermore, monitoring of companies by NGOs and media may also increase the likelihood of government intervention if CSP falls short of social expectations.

*H15: Monitoring of CSP by NGOs and media increases the strategic benefits from CSP.*

*Control variables*

Besides the influences described above, the company's CSP depends on various other influences that we should control for.

In literature, it is commonly found that CSP is positively affected by company size. Larger companies have more resources and employees than smaller companies (Studer et al., 2006). They can spread the costs of CSP over a substantial larger turnover. Due to a lack of sources and experience, smaller companies are less able to explicitly recognize CSP issues and are less known with important CSP standards (Lepoutre and Heene, 2006). Furthermore, because of their size, large companies attract more attention from NGOs and media than smaller companies. For this reason, Lynch-Wood and Williamson (2007) argue that the social license motive will not be sufficient to induce small companies to go beyond compliance to the law. They are just too small to be visible. This will not affect the CSP level directly, but also indirectly by diminishing the stakeholder's responsiveness to CSP and the potential of strategic benefits of CSP. Also Spence et al. (2000) find that the possibilities of a marketconform environmental policy are limited for the small entrepreneur, because the company will find it difficult to get its environmental efforts rewarded by the market. Other reasons why small companies may experience less stakeholder's responsiveness to their CSP and perceive lower strategic benefits from CSP may have to do with the competitive environment of small companies, because they are more often operating on level playing field markets than large companies.

Besides company size, CSP also depends on the sector in which the company operates. The nature of the production processes or products determines the type of social and environmental externalities that a company generates (Brown et al., 2010). Also the incentive to pursue an active CSR policy may differ for different sectors, as for example the reputation mechanism varies among sectors. Brammer and Pavelin (2006) find that environmental performance affects reputation positively in none but the chemical, consumer products, resources and transportation sector. Three of these sectors are commonly identified as industries with salient environmental issues.

Furthermore, CSP is conditioned on the culture and other institutional conditions in the country in which the company operates. In an extensive welfare state with a major role for trade unions, the role and responsibilities of businesses in society with regard to social and environmental issues have been traditionally marginal. The main task left for companies is to run their companies in a rational and efficient way, while respecting the outcomes of the negotiations with trade unions as well as the extensive government regulation with regard to safety and health standards, equal opportunities, waste disposal, pollution and all other social and environmental issues regulated by law (De Geer et al., 2010). CSP is therefore expected to remain more implicit and results from mandatory requirements (Matten and Moon, 2008). As in Anglo Saxon countries like the UK and the US the welfare state is less apparent than in for example Germany, one expects a greater potential for CSP in the Anglo Saxon countries. However, the social environment that gives rise to an extensive welfare state may also affect

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the company's orientation. For example, companies operating in countries with a Rhineland model (so called because it is most notably practiced in Germany) may be more inclined to balance shareholder value with the interests of other stakeholders and this may be conducive to CSP. Wirl et al. (2013) note, for example, that Germany and other Continental European countries are much more concerned about CSP. Therefore, it is not *a priori* clear what the relationship between region and CSP is.

Finally, we control for the company's position in the chain. Public campaigns are particularly effective if the targeted company is sensitive to public reputation (Brown et al., 2010). Companies with direct consumer relations and especially those with brands that they want to protect are therefore expected to be particularly vulnerable to public advocacy campaigns and more inclined to pursue an active CSR policy.

### 3.3 Sample and methodology

#### *Data*

To collect data, we developed a survey that was targeted at SMEs. Subsequently, the survey was translated into the national languages of the countries in which the companies that were invited to the survey were located. In contrast to large companies that operate internationally, SMEs are often more locally embedded and therefore also cannot be assumed to understand the current standard in international languages (English): not translating the survey into the local languages may therefore result in biases. An advanced Language Management Utility was used to coordinate translations and to ensure consistent content coverage. In order to reduce the potential for social desirability bias in the responses to the questions in the survey, we explained to the respondents in a cover letter that the survey was confidential and to be used for research purposes only. The identity of the participants would remain anonymous. Respondents thus had little reason to present a more favorable picture than they knew was the case.<sup>14</sup> In order to provide companies with an incentive to respond, an online feedback module was created for those SMEs that completed the survey. The module allowed SMEs to compare their own CSP with sector-specific and country-specific average CSP.

Before setting out, we pretested the survey by interviewing ten executives from companies in various sectors. The aim of the interviews was to explore measures and wording to be used in order to secure content validity. If the interviewees did not understand the questions or measures, we had the opportunity to seek, in interaction with the interviewees, for other formulations for the same concept. In this way, we avoided vague questions that could lead to misinterpretation by the respondents.

The survey was sent to 365,002 companies in twelve European countries (Austria, Denmark, Finland, France, Germany, Hungary, Italy, Poland, Spain, Sweden, The Netherlands and the UK), of which the majority concerns SMEs. 10,481 companies

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<sup>14</sup> Several studies show that self-reported behavior and actual behavior are strongly correlated (Beaver and Prince, 2004).

responded to the survey (response percentage 2.9 percent) of which 5,317 fully completed the survey (final response rate of 1.5 percent).<sup>15</sup> This relatively low response rate is in line with *ex ante* expectations, because the survey is electronic and takes substantial effort to complete.

Furthermore, because of the relatively low response rate, we used wave analysis in order to evaluate the non-response bias (Lin and Ho, 2011). For this purpose, we constructed a dummy variable with value 1 for respondents that responded to the first round of the survey, value 2 for responses after the first reminder, value 3 for responses after the second reminder and value 4 for responses after the third reminder. The wave analysis assumes that late respondents are more similar to non-respondents than early respondents. Bivariate correlation analysis showed that the (Spearman) correlation coefficient between this dummy and the overall CSP of companies is insignificant (-0.012 with  $p=0.39$ ), which indicates no non-response bias. Also Groves (2006) shows that (at least for household surveys) there is little empirical support for the notion that low response rates *de facto* produce estimates with high non-response bias. However, notwithstanding this encouraging result, there might still be a bias in our sample to companies that are aware of CSR at all. Although technically speaking our sample is large enough to be representative for all SMEs in the twelve European countries under research<sup>16</sup>, we must keep in mind that any (large) survey will tend to overrepresent companies that have higher levels of awareness of the subject of the survey. But as CSR gets more mainstreamed now and it is more commonly acknowledged that CSR is not just a 'luxury good', this focus on SMEs that are aware of CSR is still highly valuable, all the more since the respondents to our survey show very diverse ways of engagement with CSR.

To address the potential concerns of common method bias, we carried out Harman's single-factor test. If a substantial amount of common method bias exists in the data, a single or general factor that accounts for most of the variance will emerge if all the variables are entered together (Podsakoff et al., 2003). An unrotated principal component analysis on all 80 variables in our analysis (excluding the dummy variables) revealed 18 factors with eigenvalues greater than 1.0, which together accounted for 59 percent of the total variance. The largest factor did not account for a majority of the variance (16 percent).

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<sup>15</sup> 72 percent of the respondents held an executive position and therefore can be assumed to be able to assess with at least some accuracy their CSP and its drivers. Respondents could prematurely store the survey results during the process of filling in the survey, allowing them the opportunity to ask other employees to continue filling in certain questions if specialized knowledge was needed.

<sup>16</sup> Bartlett et al. (2001) provide a methodology for determining if a sample size is adequate within a given population. Using their methodology, it can be estimated that 385 cases are needed to be able to generalize findings to the population of SMEs in the twelve European countries (which equals 16 million; see Table 1.3) using an alpha of .05. See also: <http://www.nss.gov.au/nss/home.NSF/pages/Sample+size+calculator> (accessed on 1-5-2014).

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*Measures*

To decide how to measure CSP, we examined the tradition of CSP models in the literature. According to Orlitzky et al. (2003), one of the most influential, parsimonious and yet comprehensive conceptualizations of CSP is Wood's CSP model (Wood, 1991; Wood, 2010). In her model, Wood synthesizes the various previous attempts to model CSP. It consists of three parts: principles of CSR, processes of social responsiveness and impacts of CSR. The principles of CSR guide the processes of social responsiveness (the action part) which can result in impacts.

Based on this, we operationalize CSP by 76 indicators on general instruments and issue-specific practices to improve social and environmental impacts (see Appendix 3.1). The first type of indicators comprises 16 organizational measures to integrate CSR into the company's organization (Ulrich et al., 1998). The second type of indicators concerns six specific social issues including share of women in management, recruitment of employees from disadvantaged groups, work-life balance, employee training, reduction in work place accidents and sickness absence rate, and labor conditions of suppliers and subcontractors. For each social issue, the survey includes questions about three procedural measures that facilitate the organization of CSP accountability in the company (which is an important aspect of AA1000), namely: whether companies measure the actual performance of these CSR issues, whether they use targets for the improvement in performance in the future and whether they report the realization of these targets. Besides, the survey includes questions about the (informal) effort that companies make to improve these social issues. Efforts refer to concrete actions that aim to increase CSR impact. For example, ICT companies can take all kinds of practical measures to reduce energy consumption from their main operations. Construction companies can take various practical measures to substitute energy intensive building materials by less energy intensive materials, such as the use of environmentally friendly cooling systems. These actions are often not formalized into explicit policy statements, like in large companies, but limited to doing efforts to act appropriately (Fassin, 2008). The reason why we added this measure to the survey is that our pilot interviews indicated that SMEs may actually proactively foster their CSP without using formal procedures or programs that are more often used by large companies. Merely measuring the use of formal organizational procedures may therefore bias the measurement of CSP of SMEs. Next, the survey includes questions about the impacts for each social issue during the period 2007-2010, such as the increase in the share of women on the board and in executive positions. The fourth type of indicators concern procedural measures and efforts to improve six specific environmental issues including greenhouse gas (GHG) emissions, energy consumption, the use of renewable energy, water consumption, waste production and recycling of waste. The final type of indicators concerns the environmental impacts during 2007-2010, such as the growth in energy consumption. The outcomes reported in Table 3.1 show that the average CSP is relatively low (27 percent on a scale ranging from 0-100 percent) and that there is substantial variation in the total scores.

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As Table 3.1 shows, the strategic benefits are measured by four questions regarding profitability, regulation, innovation and reputation. The perceived strategic effect of CSP is largest for reputation and innovation and lowest on meeting government regulation. With regard to the stakeholder's responsiveness to CSP, companies perceive employees as the most responsive stakeholder. CSP particularly motivates the own employees. Stakeholders operating on the capital market are least responsive. Furthermore, the survey outcomes show that companies experience on average as much technological competition as price competition. With regard to transparency, companies do not seem to be exposed to much media attention or monitoring by NGOs, which is probably due to the fact that our sample includes many SMEs and that many of them operate in B2B relations instead of business-to-consumer (B2C) relations (see Table 3.2).

**Table 3.1 Measures**

Variable	Measurement	Mean	SD
CSP <sup>a</sup>	Average CSP	27	12
Strategic benefits of CSP <sup>b</sup>	CSP improves profitability in the long run	4.12	1.68
	CSP helps meeting (future) government regulation	4.08	1.67
	CSP improves innovative capacity	4.27	1.66
	CSP limits reputational risks	4.46	1.65
Stakeholder's responsiveness to CSP <sup>b</sup>	CSP makes it easier to attract investors	2.88	1.68
	CSP makes it easier to get credit from banks	2.69	1.57
	CSP increases profit margins on products	3.22	1.60
	CSP increases turnover	3.25	1.65
	CSP improves inflow of highly qualified employees	3.72	1.73
	CSP motivates the employees	4.39	1.62
Competition <sup>b</sup>	Intensity of price competition	5.07	1.88
	Intensity of technological competition	5.19	1.67
Transparency in CSP <sup>b</sup>	Monitoring of CSP by NGOs and media	2.30	1.67

<sup>a</sup> Measured on a scale from 0 to 100.

<sup>b</sup> Measured on a seven points scale ranging from 'not at all' (1) to 'very much' (7).

Table 3.2 presents the descriptive statistics for the control variables. A substantial part of the sample consists of very small or small companies with less than 50 full-time equivalents (FTEs). The number of large companies (with more than 250 FTEs) is relatively small, but because of the large sample in absolute terms still considerable. Many companies are from the material, industrial and consumer discretionary sector. With respect to regions, Table 3.2 shows that many respondents are from Mediterranean Europe. This is due to the large number of Italian companies to which the survey was sent. In contrast, for the UK we received a relatively low number of responses. Finally, companies in the sample mostly operate in B2B relations. Only 7 percent of the sample mainly or only sells to end consumers.

**Table 3.2 Control variables (% of respondents)**

Company size (FTEs in 2007)			
0-10	27	100-250	9
11-50	37	>250	9
50-100	18		
Sector			
Energy	4	Consumer staples	4
Material	17	ICT	4
Industrial	19	Financial	3
Consumer discretionary	18	Other	31
Region			
UK	3	Continental Europe: Austria, France, Germany, The Netherlands	31
Mediterranean Europe: Italy, Spain	39	East Europe: Hungary, Poland	13
Scandinavia: Denmark, Finland, Sweden	14		
Position in the chain			
B2B	45	Mainly B2C	5
Mainly B2B	25	B2C	2
In between	23		

### 3.4 Empirical analysis

Before performing empirical analyses, we screened the data by testing for heteroskedasticity and outliers. Crossplots between the dependent and the independent variables showed no heteroskedasticity, whereas box plots indicated no problematic outliers. Given the fact that our sample is very large, non-normally distributed variables will not pose serious problems.

#### *Correlation analysis*

Table 3.3 presents the results of the bivariate correlation analysis. CSP is significantly correlated to all other variables except price competition. Also the four variables measuring the strategic benefits are highly correlated. Furthermore, the two variables measuring the stakeholder's responsiveness on the capital market are highly correlated ( $r > 0.70$ ), and the same applies to the two variables measuring the stakeholder's responsiveness on the product market and the labor market respectively.

**Table 3.3 Results correlation analysis<sup>ab</sup>**

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
2	.36														
3	.37	.74													
4	.32	.53	.59												
5	.34	.62	.57	.60											
6	.24	.44	.42	.43	.40										
7	.20	.47	.40	.42	.39	.71									
8	.26	.69	.46	.57	.47	.52	.59								
9	.26	.67	.48	.56	.49	.49	.55	.77							
10	.32	.58	.41	.58	.51	.53	.56	.57	.57						
11	.34	.59	.40	.60	.52	.38	.40	.52	.52	.73					
12		-.04				.05			-.04	-.05	-.05				
13	.11	.11	.07	.11	.10	.05	.05	.09	.11	.12	.13	.06			
14	.30	.27	.25	.28	.28	.28	.29	.25	.26	.26	.24				
15	.40	.18	.16	.14	.20	.10	.09	.13	.16	.19	.18	-.06	.06	.20	
16	.07					.07	.06	.04	.04			-.05	-.04	.09	.06

<sup>a</sup> Spearman's rho; only correlations with  $p < 0.01$  are presented.

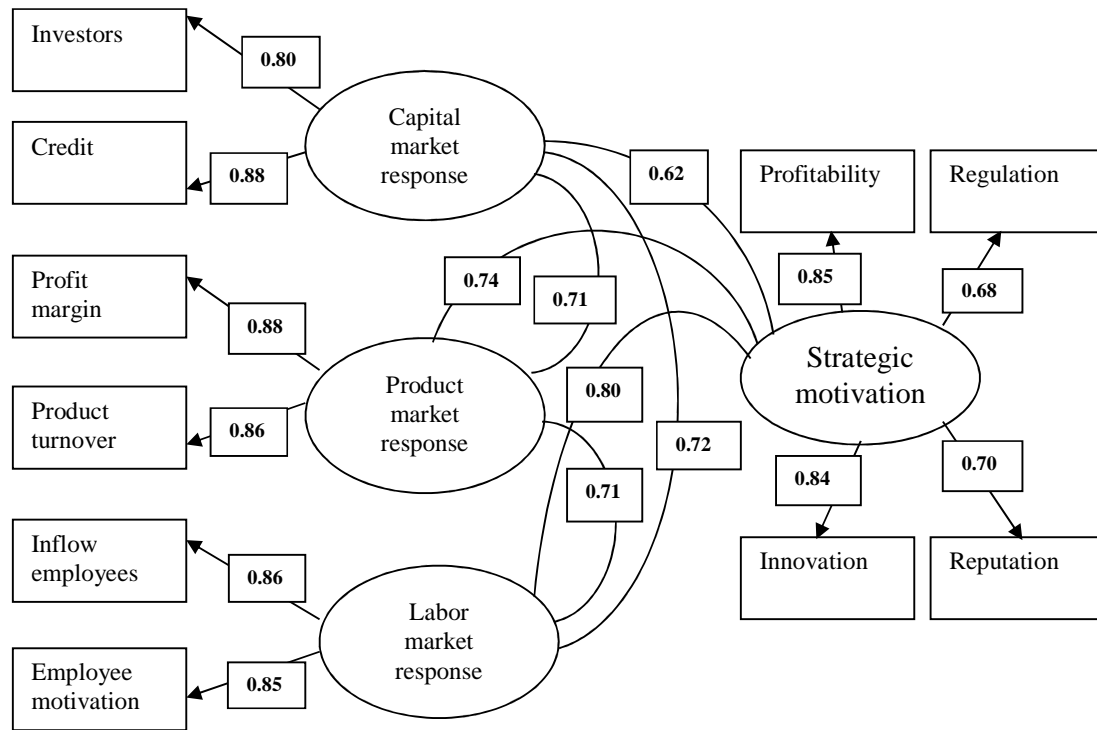
<sup>b</sup> 1: CSP 2: Effect on profitability 3: Effect on regulation 4: Effect on innovation 5: Effect on reputation 6: Effect on investors 7: Effect on credit 8: Effect on profit margin 9: Effect on turnover 10: Effect on inflow employees 11: Effect on employee motivation 12: Price competition 13: Technological competition 14: NGOs and media 15: Company size 16: B2C.

### *Factor analysis*

Due to the results of the correlation analysis and that theory indicates that clustering some variables has substantive meaning, we used confirmatory factor analysis to analyze whether we could cluster the strategic benefits and the stakeholder's responsiveness on the capital, product and labor markets into overarching factors. We used structural equation modeling and maximum likelihood estimation to estimate this measurement model. The measurement model, depicted in Figure 3.2, consists of four factors: the three types of markets each have two indicators and the factor 'strategic motivation' has four indicators. Covariances between each factor are freely estimated and error terms that appeared to be correlated too. Results from the estimation with AMOS 19 show that a four factor model fits the data well. Although the chi-square value is rather high and significant, this is due to the very large sample size ( $N=5,317$ ) as this fit statistic is very sensitive for sample sizes. Other fit indices that do correct for the sample size are therefore more reliable indicators of model fit in this case. For example, the Comparative Fit Index (CFI): values larger than 0.95 are generally seen as confirming a good model fit (Byrne, 2010). The same is true for the Tucker-Lewis Index (TLI), an index that not only takes sample size into account but also includes a penalty function for overparametrization by incorporating the degrees of freedom. As the values of the CFI and TLI of our measurement model are both 0.99, both indices suggest a very good model fit. Good model fit is also confirmed by the Root Mean Square Error of Approximation (RMSEA) measure of 0.04, because it has a value smaller than 0.06 (Hu and Bentler, 1999; MacCallum et al., 1996) and by the Standardized Root of Mean Square Residual (SRMR) value (values below 0.05 indicate a good model fit). Besides those favorable global fit

indices, also the local fit measures are good: as Figure 3.2 shows, each regression path between indicators and factors is significant. We therefore conclude that this measurement model fits the data very well.

**Figure 3.2 Results measurement model<sup>abc</sup>**



<sup>a</sup> Standardized coefficients; bold indicates  $p < 0.001$ .

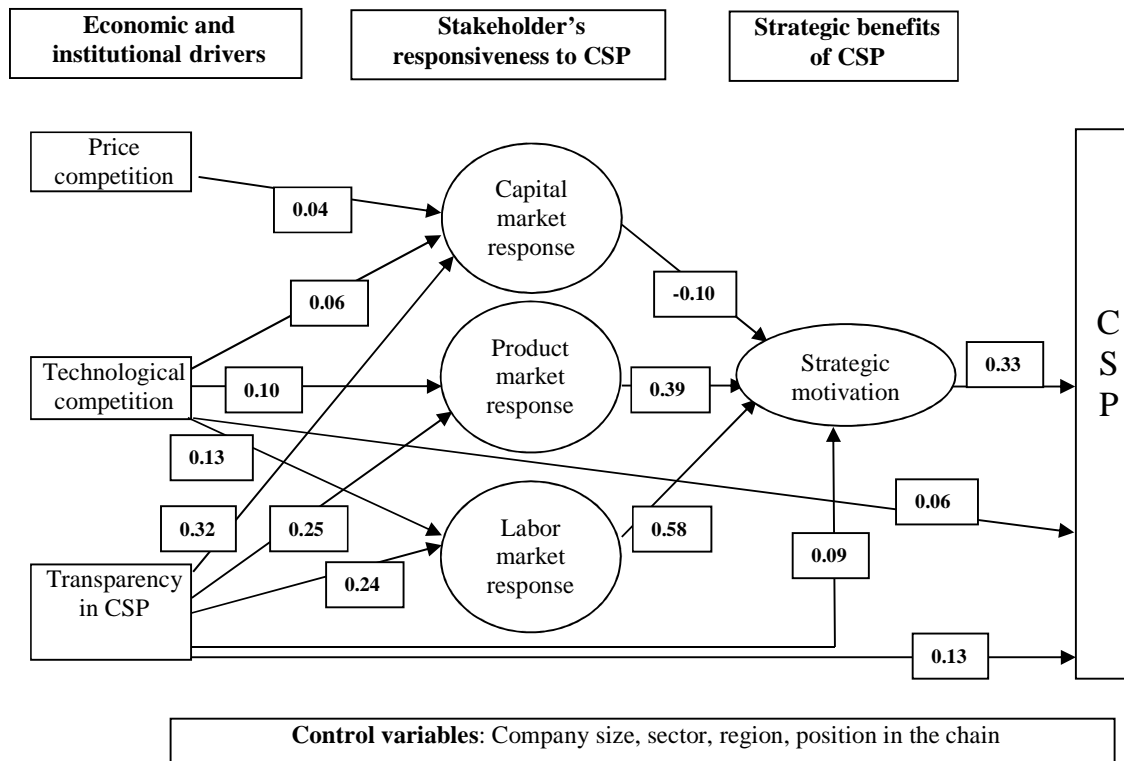
<sup>b</sup> Chi-square=198,  $p < 0.001$ ,  $N=5,317$ ,  $df=19$ ,  $CFI=0.99$ ,  $TLI=0.99$ ,  $RMSEA=0.04$ ,  $SRMR=0.01$ .

<sup>c</sup> Random errors of indicators are estimated, but not shown in the figure.

### Structural model

In this section, we use structural equation modeling (SEM) and AMOS 19 to test the structure of our conceptual framework and the measurement model at once. SEM enables us to take into account the covariations between various dependent and independent variables and test the nomological validity and therefore not only the validity of the various hypothesized relationships, but also the validity of the connectedness of the relationships, i.e. the structure of the model. The measurement model which was tested in the previous subsection is part of this structural model. Besides including the structural paths, we also include the various control variables in the model and again use maximum likelihood as estimation technique.

The model and its estimates are depicted in Figure 3.3. Due to space restrictions, we excluded drawing the measurement model again (however, the factors are again drawn as ellipses to indicate that these are indeed latent variables), the residual terms of the endogenous variables and the various control variables. All three are included in the analysis though.

**Figure 3.3 Results structural equation modeling: core model<sup>abc</sup>**

<sup>a</sup> Standardized coefficients; bold indicates  $p < 0.001$ .

<sup>b</sup> Chi-square=1,279,  $p < 0.001$ ,  $N=5,317$ ,  $df=209$ ,  $CFI=0.98$ ,  $TLI=0.97$ ,  $RMSEA=0.03$ ,  $SRMR=0.02$ .

<sup>c</sup> Latent variables depicted as ellipse; measurement model estimated, but not shown in the figure.

Given the favorable global fit indices ( $CFI=0.98$ ,  $TLI=0.97$ ,  $RMSEA=0.03$ ,  $SRMR=0.02$ ), the structure of our conceptual model is supported by the data. Only the chi-square value is significant, but this is due to the large sample size and no reason to reject the model. Also the local fit is overall quite good, given the many highly significant and substantive regression coefficients. Most hypotheses are supported. The Squared Multiple Correlation (SMC) of CSP is 0.33, indicating that 33 percent of its variance is explained by its predictors. We find a large positive and significant effect of strategic motivation on CSP which supports H1. Also an inverse causality from CSP to the perception of strategic benefits from CSP is theoretically possible as companies that start developing CSP can be expected to be more alert on finding strategy opportunities for CSR than companies that are not interested in CSR. However, we find no empirical evidence for inverse causation between CSP and strategic motivation, as adding this path does not significantly improve the model fit. Since the CSP of any individual company will be too weak to inversely affect the external economic and institutional drivers, simultaneity is theoretically not plausible between these variables.

The perception of strategic benefits depends, as expected, heavily on the market responsiveness to CSP on the product and labor market respectively, supporting H3 and H4. Although we find an effect of the capital market responsiveness to CSP on the strategic

benefits of CSP (H2), this effect is negative. This is probably due to the fact that the responsiveness of investors and banks to CSP is rather low (see Table 3.1). The SMC of strategic motivation is 0.72, indicating that 72 percent of its variance is explained by its predictors in the model, which is very substantial. For the economic conditions, we find a small influence of price competition on the responsiveness of the capital market (H5), but we find no influence of the intensity of price competition on responsiveness of the product and labor market (H6 and H7) or directly on CSP (H11). In contrast, the intensity of technological competition is shown to have a significant positive influence on stakeholder's responsiveness on all the three types of markets, supporting H8-H10, indicating the relevance of distinguishing price and technological competition as two different types of competition. The SMCs of the responsiveness of the capital, product and labor market are 0.13, 0.12 and 0.17 respectively. Modification indices furthermore show that adding a direct effect of technological competition on CSP substantially improves the fit of our model, and therefore this path was added. Furthermore, we find significant positive effects of monitoring of NGOs and media on stakeholder's responsiveness on the capital, product and labor market and strategic benefits from CSP, supporting respectively H12-H15. We also find a direct influence of monitoring by NGOs and media on CSP, as adding this effect substantially improves the fit of our model. This direct effect was not hypothesized.

**Table 3.4 Results structural equation modeling: control variables<sup>a</sup>**

	CSP	Strategic benefits	Stakeholder's responsiveness to CSP		
			Capital market	Product market	Labor market
Company size	.31***	-	.05***	.09***	.15***
Energy	.04**	.03***	-	-	-
Material	-	-	-	-	-.04***
Industrial	-.03*	-	-	-	-
Consumer discretionary	-	-	-	.03*	-
Consumer staples	-	-	-	.03*	-
ICT	-.04***	-	-	-	.05***
Financial	-.05***	-	-	-	-
Mediterranean Europe	-.09**	-	.17***	-	.07*
Scandinavia	-.16***	-.09***	.07***	-	.14***
Continental Europe	-.16***	-	.08***	-	.10***
East Europe	-.06*	-	-	-.10***	-.12***
B2C	.03**	.02*	.05***	-	-

<sup>a</sup> Standardized coefficients; \* p<0.05, \*\* p<0.01, \*\*\* p<0.001

Table 3.4 shows the estimation results for the control variables. To optimize the model fit, insignificant paths were left out (indicated by a bar). The results show strong support that CSP is positively related to company size. On top of this direct effect on CSP, company size also exerts a positive influence on the stakeholder's responsiveness to CSP on the capital, product and labor market and strategic benefits. Besides, Table 3.4 shows several significant sectorial and regional influences and effects of the company's position in the chain. The reference category for sectors is 'other sectors' and for regions the UK. An interesting finding is that

perceived strategic benefits of CSP are quite insensitive for the control variables, indicating that these strategic benefits are quite uniform across sectors, regions and company sizes.

### *Mediation analysis*

Table 3.5 summarizes the direct, indirect and total effects of the various economic and institutional drivers on CSP. To calculate the significance of the indirect and total effects, we have to know the standard error of the population. As it is logically impossible to know this value, we use bootstrapping. With this technique, it is assumed that our sample represents the population from which numerous different samples are randomly drawn. This enables AMOS 19 to calculate the standard error and therefore to assess the significance of the indirect and total effects. Maximum likelihood bootstrapping has been used.

**Table 3.5 Results mediation analysis<sup>a</sup>**

	<b>Direct</b>	<b>Indirect</b>	<b>Total</b>
Price competition	-	-0.001 (0.002)	-0.001 (0.002)
Technological competition	0.054 (0.002)	0.035 (0.001)	0.089 (0.002)
Transparency in CSP	0.131 (0.001)	0.097 (0.002)	0.229 (0.002)
Capital market	-	-0.034 (0.003)	-0.034 (0.002)
Product market	-	0.128 (0.002)	0.128 (0.002)
Labor market	-	0.194 (0.002)	0.194 (0.003)

<sup>a</sup> Standardized coefficients; significance levels based on bootstrapping, by using 1000 bootstrap samples; two-tailed significance levels between brackets.

For technological competition and transparency in CSP, we find that both the direct effect and the indirect effect on CSP through mediation are significant. For price competition and the responsiveness on the various types of markets, we only find an indirect effect on CSP that is significant. The effect from price competition on CSP, however, is very small.

### **3.5 Discussion**

In this chapter, we tested a multi-layered framework of drivers of CSP by distinguishing internal factors (strategic CSP benefits), mediating conditions (stakeholder's responsiveness to CSP on capital, product and labor markets) and economic and institutional drivers (price and technological competition and transparency in CSP through monitoring by NGOs and media). Using a sample of 5,317 companies from twelve European countries that consist largely of SMEs, we find empirical support for 11 out of 15 hypotheses of our conceptual framework.

Strategic benefits from CSP are an important antecedent for CSP. The strategic benefits prove to be an important mediator for the influence of stakeholder's responsiveness on the capital, product and labor market. Strategic benefits particularly depend on the market responsiveness to CSP of stakeholders on the product and labor market. The more stakeholders on the product and labor market reward responsible behavior of companies and punish irresponsible behavior, the higher the perceived strategic benefits from CSP and consequently the better the CSP of a company. The responsiveness of stakeholders to CSP on the capital market provides only a small strategic benefit to CSP. This is in line with the interviews that we held with directors of some companies when testing the survey. Many of them indicated that banks do not consider the CSP of the company when deciding about the supply of credit to the company.

Transparency in CSP is found to be a crucial institutional condition for CSP. Our research furthermore shows that when analyzing the influence of competition on CSP it is important to distinguish between price and technological competition. Technological competition is an important economic condition that stimulates CSP through enforcing the stakeholder's responsiveness to CSP on the capital, product and labor market as well as by increasing strategic CSP benefits directly. If companies face technological competition, the branding of their products will be of critical value and this creates an important strategic motivation for upholding a good CSP reputation. In contrast, we find almost no effects of price competition on CSP. Also if we test for non-linear effects of price competition (by adding price competition squared), no significant effects are detected. Hence, our research does not support the hypothesis of Campbell (2007) that the intensity of price competition has a non-linear effect on CSP.

Besides the effects hypothesized by the conceptual framework, we find some other significant relationships that are not predicted by our framework. In particular, we also detect significant positive direct effects of technological competition and monitoring by NGOs and media on CSP. The direct effect of technological competition on CSP may point at possible positive effects from technological competition on innovation and from innovation on CSP, even when companies are not explicitly aware of this relationship and therefore does not improve their strategic motivation for CSP (the innovation motive is one of the motives of companies that fosters CSP). In future research it would be interesting to test for this mediation by integrating innovation in the overall framework. Also the direct effect of monitoring by NGOs and media can be explained by the fact that direct contacts between the company and NGOs through stakeholder dialogues may make managers more aware of the strategic benefits of CSP, but may also contribute to making managers aware of moral dimensions of being socially responsible and thus stimulate their CSP for other reasons than strategic benefits.

Finally, we find several significant effects of control variables. First, we find that company size has a significant and substantial positive effect on CSP, a finding that is documented by many empirical studies and discussed in our conceptual framework. Furthermore, company size is found to exert a positive influence on the stakeholder's

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responsiveness on the capital, product and labor markets. The direct effects of company size on stakeholder's responsiveness on the capital, product and labor market may be explained from the notion that stakeholders realize that small companies have less opportunities to care about CSP because of their limited sources. They will therefore be less inclined to punish small companies for low CSP. Next, in some instances we find that CSP depends on the sector in which the company operates. In particular, we find that companies operating in the energy and utilities sector generally have higher levels of CSP than companies in other sectors, while those companies operating in the industrial, financial and ICT sector tend to have lower levels of CSP. The coefficients are not very substantial though. Furthermore, we find that companies from the UK with a fairly small welfare state outperform companies from Scandinavia and Continental Europe and to a lesser extent also East European and Mediterranean European companies. The interpretation of this result is complicated, because the regional dummies may capture several different types of influences, such as culture and government regulation. Nevertheless, our results do provide an indication of a larger potential for (explicit) CSP in Anglo Saxon capitalism. Finally, in line with our expectations, companies operating in B2C relations are more involved with CSP than companies in B2B relations.

### **3.6 Policy implications**

The results of the empirical analysis have important implications for government policies at the institutional level.

First, we find no support for the argument of Van de Ven and Jeurissen (2005) that CSP is hampered by (price) competition. They argue that in a perfect market, individual companies will have hardly any room to pursue a proactive CSR policy, because any cost disadvantage will harm their market share. This may be particularly relevant for small companies that are often subject to fierce price competition. This would mean that antitrust policy can easily collide with CSP of small companies and hence with sustainability. Our results show, however, that the negative influence of price competition (or price competition squared) on CSP is negligible. We therefore find no evidence for a trade-off between economic benefits from more competition (the usual policy goal of competition policy) and social or environmental benefits.

Furthermore, our research shows that it is important to distinguish between price and technological competition in the analysis of the economic drivers of CSP. Whereas price competition hardly affects CSP, technological competition provides significant positive incentives to CSP. Governments could make use of the importance of technological competition and the finding that companies are motivated to CSP because it improves the innovative capacity. Since governments spend substantial subsidies on innovation programs in the business sector, there is an opportunity to align innovation policy to sustainability policy, for example, by making government support of innovation programs dependent on CSP criteria.

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Third, our research indicates that the stakeholder's responsiveness to CSP on the product market provides incentives to CSP. A traditional way of government intervention to stimulate the responsiveness to CSP is to provide subsidies for socially responsible products and tax products that generate social damage. In addition, the government could be an example in its own role as customer by employing a set of criteria that takes into account social and environmental issues of the products bought by the government.

Finally, investors and banks could do substantial more to stimulate companies to improve CSP. The results of the empirical analysis indicate that companies are hardly rewarded by banks if they excel in CSP. Also our interviews with directors (in the preparation phase of our research) indicated that many SMEs feel that banks do not consider the CSP of SMEs in their decisions on supplying credit. In the current economic crisis where credit and supply of capital is scarce, there is right now a golden opportunity for banks and other investors to put more effort in integrating CSP conditions in their relationship with business clients.

### Appendix 3.1 Overview of CSP indicators

<b>1. General instruments</b> Total weight in overall CSP: 0.16 (Weight per instrument: 0.01) For each indicator the options were: 0 no or do not know, 1 yes	
1 Internal publication of a code of conduct	9 A confidential person or a confidential complaint procedure/whistleblower procedure
2 External publication of a code of conduct	10 Ethics committee
3 Active dialogue with NGOs concerning CSR issues	11 Training program in (issues of) CSR for employees
4 Cooperation with other enterprises in supply chain to meet CSR goals	12 The use of a reference guide or external CSR tool to measure and verify your CSP
5 Partnerships with professional training institutes	13 Use of global initiatives as a frame of reference
6 Participation in local initiatives to meet social or environmental objectives	14 ISO9001/9002/9003
7 Director is responsible for CSR issues	15 ISO14001/Eco-Management and Audit Scheme (EMAS)/Greenhouse Gas Protocol
8 CSP related remuneration of management	16 SA8000

<b>2. Issue-specific social practices</b> Total weight in overall CSP: 0.30 (Weight per issue: 0.05) For each issue, the survey includes questions about the intensity of the effort to improve (three options: 0 no, 0.5 incidentally, 1 continuously), measurement of performance (two options: 0 no, 1 yes), use of targets (two options: 0 no, 1 yes), reporting of performance (two options: 0 no, 1 yes) The six issues are: 1 Share of women on board and in executive positions 2 Share of employees recruited from disadvantaged groups (e.g. ethnic minorities, people with disabilities, long-term unemployed) 3 Work-life balance 4 Employee training 5 Reduction in work place accidents and sickness absence rate 6 Labor conditions of suppliers and subcontractors	
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<b>3. Social impacts</b> Total weight in overall CSP: 0.12 (Weight per issue: 0.02) For each of the six social issues, the survey includes questions about the change in impacts during 2007-2010 (measured by seven options).	
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<b>4. Issue-specific environmental practices</b> Total weight in overall CSP: 0.30 (Weight per issue: 0.05) For each issue, the survey includes questions about the intensity of the effort to improve (three options: 0 no, 0.5 incidentally, 1 continuously), measurement of performance (two options: 0 no, 1 yes), use of targets (two options: 0 no, 1 yes), reporting of performance (two options: 0 no, 1 yes) The six issues are: 1 GHG emissions 2 Energy consumption 3 Use of renewable energy 4 Water consumption 5 Waste production 6 Recycling of waste	
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<b>5. Environmental impacts</b> Total weight in overall CSP: 0.12 (Weight per issue: 0.02) For each of the six environmental issues, the survey includes questions about the change in impacts during 2007-2010 (measured by seven options).	
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## **Part II**

### **Impacts of CSR**

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# Chapter 4

## Impacts of CSR in China

### 4.1 Introduction

The world today faces a complex and multi-faceted set of ‘eco-social questions’ because of the negative external social and environmental effects of production and consumption patterns. As the regulating power of national and international governments is limited in an economically liberated and globalized world order, this challenge has generated strong interest in integrating the corporate social responsibility (CSR) of companies into a new governance model, and replacing centralized regulation with a more collaborative approach (Hess, 2007). Research has shown that internalizing externalities through CSR is potentially promising, because there is some evidence that the financial performance of companies (CFP) is positively related to corporate social performance (CSP)<sup>17</sup> (Van Beurden and Gössling, 2008; Margolis et al., 2007; Orlitzky et al., 2003). The causation seems to be that CSP and CFP mutually affect each other through a virtuous circle: financially successful companies spend more on CSR because they can afford it, but CSR also helps them to become more successful in the future (Waddock and Graves, 1997).

Overall, the empirical evidence seems to imply that the current economic and institutional conditions provide companies incentives to pay attention to CSR and (partly) to internalize external effects. However, although companies may, therefore, be stimulated to pay attention to CSR, it remains uncertain whether CSR indeed helps to internalize negative externalities. Today, increasing numbers of companies are using various kinds of CSR policies and instruments, such as codes of conduct, environmental certifications and initiatives to cooperate with stakeholders. Several studies have been undertaken to analyze the factors that influence the adoption of these practices (Aragón-Correa et al., 2004; Brown et al., 2010; Gadenne et al., 2009; Lin and Ho, 2011; Williamson et al., 2006), but the impact of these programs on the realization of important social and environmental goals remains uncertain. How effective are CSR instruments? Are they mainly rhetoric instruments? Critical authors like Banerjee (2008) argue that CSR initiatives are really nothing more than window dressing. Others argue that whereas the ‘Triple P bottom line’ calls on companies to weigh the effects on stakeholders and the environment alongside profit, in practice companies have co-opted CSR initiatives and have shifted towards a business ethics agenda that supports rather than questions business practices, and have only adopted CSR insofar as it can be aligned to simple strategic interests (Marens, 2008). As a result, poor social and environmental business practices continue to be the norm.

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<sup>17</sup> CSP is a broader concept than CSR, as it encompasses besides the principles of social responsibility also the processes of social responsiveness and impacts of CSR (Orlitzky, 2008; Wood, 1991).

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There are few studies on the effectiveness of CSR. Ammenberg and Hjelm (2003) and Friedman and Miles (2001) look at the impacts of environmental management systems and find that the establishment of a joint environmental management system in Sweden and Britain, respectively, resulted in environmental improvements. However, both studies are based on a limited number of case studies of small and medium-sized enterprises (SMEs) and the results are, therefore, difficult to generalize. Because of this limited evidence, it remains uncertain to what extent the implementation of a combination of CSR policies and instruments really results in social impacts and, therefore, contributes to social welfare. This is a very serious gap in the field of CSR research, because if CSR fails to have favorable social and environmental impacts, the whole concept may become redundant.

In this chapter we aim to fill this gap in the literature. For this purpose, building on the rich tradition of models on CSP, we develop a conceptual framework that distinguishes between CSR rhetoric, CSR implementation and CSR impact and describe the relationships between these concepts. Based on this framework, the research questions of the present chapter are:

1. Does CSR rhetoric as expressed in a code of conduct stimulate CSR implementation?
2. Does CSR implementation make a difference in the realization of important social and environmental goals?
3. Does CSR implementation mediate the influence of CSR rhetoric on CSR impact?

In order to study these questions, we undertook a survey among companies in China. China is an interesting case for studying CSR as it became the largest emitter of greenhouse gases in 2006, emitting 8 percent more than the US (Ma and Chen, 2011). In 2006, China accounted for 10 percent of global energy use and was relying on coal for approximately 75 percent of its energy generation (McKibbin, 2006). Also the large increase in the movement of people from rural to urban areas and the major role of social networks (often referred to as ‘guanxi connections’<sup>18</sup>) shows the expected relevance of CSR in China (Hu, 2008). A study of Hu and Saich (2012) shows that migrant workers often have poorer access to educational and health services than registered villagers. But although companies in China have agreed to put CSR initiatives into practice and have started to implement various CSR instruments, the CSR impact in terms of realization of social and environmental goals may be lacking. For instance, despite two Chinese companies illegally added melamine to the wheat gluten used for pet food, they both still won many honors and were lauded as ‘honest and trustworthy enterprises’ or ‘advanced quality management enterprises’ by the local government authorities in charge of assessing corporate contributions to the community and corporate integrity (Lu, 2009). In some cases, promising CSR implementation initiatives have lost their

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<sup>18</sup> Guanxi is a very old practice in the Chinese management culture and refers to the greater relevance of interpersonal bonds over institutional ones. Getting something done in China depends less on the formal order and more on the people one knows and how people see their obligation to each other (Tian, 2007).

effectiveness due to the lack of commitment of companies. For example, Reebok introduced a ‘complaint hotline’ for its supplier Fortune Sports to report non-compliance to the code of conduct. In the initial years following implementation, the worker communication system was frequently used by Fortune Sports workers. However, later on, Reebok decided to downgrade the communication system to reduce costs, and workers gradually lost confidence in the effectiveness of the system and increasingly experienced that the management revenged workers that were complaining (Yu, 2009). Tsoi (2010) notes that companies sometimes not really do anything with the comments they receive from stakeholders. As one interviewee remarked in the research of Tsoi: ‘If you don’t do anything with it, it is just a conversation’ (Tsoi, 2010, p. 399). These examples show that there may be a substantial gap between formal policies and any actual impact.

This chapter proceeds as follows. Section 4.2 describes the conceptual framework. Section 4.3 describes the sample and methodology of the empirical analysis. Section 4.4 reports the results of the empirical analysis. Finally, in Section 4.5 we summarize the main findings and formulate policy implications.

## **4.2 Conceptual framework**

Over the past couple of decades, several theoretical models on CSP have been proposed in which CSR policies are represented and linked with the implementation and impacts of CSR. According to Orlitzky et al. (2003), one of the most influential and comprehensive conceptualizations of CSP is Wood’s CSP model (Wood, 1991, 2010), in which various previous attempts to model CSP are synthesized (e.g. Carroll, 1979; Preston and Post, 1975; Wartick and Cochran, 1985). Wood’s model consists of three parts. The first part concerns the principles of CSR. The principles are supposed to guide the second part of the model, the processes of social responsiveness. This is the action part of the model (Wood, 1991, 2010). The first two parts of the model result in the final part, the impacts of CSR. Those impacts represent a critical missing piece in earlier CSP models (Wood, 2010). The impact part contains the effects of CSR on society, in contrast to the intentions (in the principle part) and CSR actions (in the implementation part), which concern the way in which the company deals with CSR itself.

Jamali and Mirshak (2007) more specifically apply Wood’s model at the business level by specifying social policies, social programs and social impacts (where ‘social’ is defined in the broad sense). Although it is not identical, the model of Jamali and Mirshak resembles the structure of the so-called total responsibility management (TRM) framework proposed by Waddock et al. (2002) for helping companies managing their responsibilities to stakeholders and the natural environment.

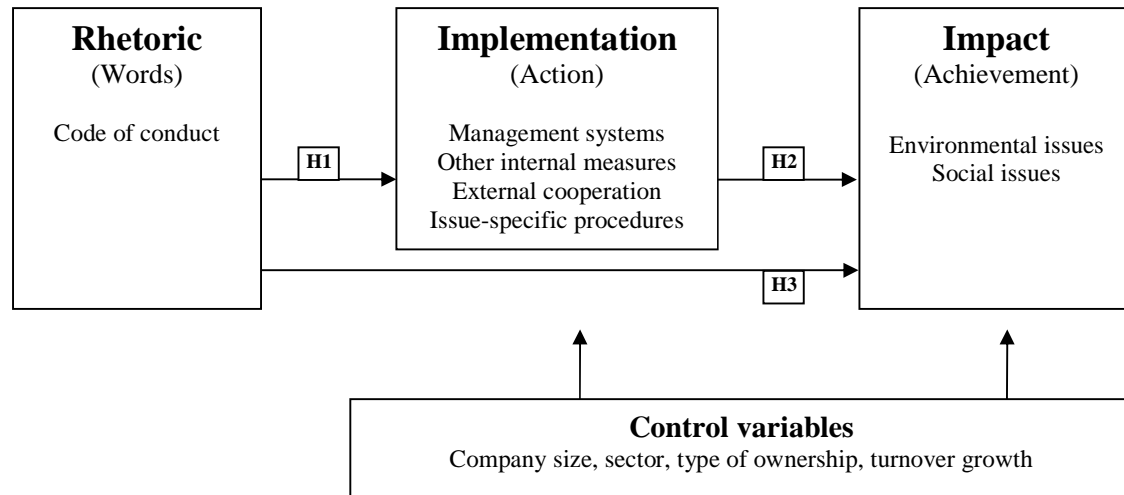
In our conceptual framework, as depicted in Figure 4.1, we employ a similar structure to assess the impacts of CSR as developed in theoretical CSP models and their more practical oriented spin-offs. Our framework also consists of three main parts: a code of conduct expressing rhetoric (what companies say), implementation of various instruments to integrate

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CSR into the company (what companies do) and impact in terms of realization of social and environmental goals (what companies achieve).

**Figure 4.1 Conceptual framework**



The CSR rhetoric refers to the use of a public code of conduct. A public code of conduct is a public formal statement of principles that defines the basic responsibilities of the company towards its shareholders and other stakeholders (Kaptein and Wempe, 1998). A code of conduct can improve the communication of values and norms within the company and between the company and its external stakeholders, and explicitly shows the company's commitment to CSR.

CSR implementation refers to general instruments and issue-specific measures that the company uses to apply CSR in practice. CSR implementation can be considered as the action part of the model and the mediator between rhetoric and impact. We distinguish four types of implementation instruments: management systems (SA8000, ISO14001, Eco-Management and Audit Scheme (EMAS) and Greenhouse Gas Protocol), other internal company measures (making the director explicitly responsible for CSR, CSR related remuneration of managers and CSR training of managers and employees), external cooperation (an active dialogue with non-governmental organizations (NGOs), cooperation with other companies in the supply chain and participation in local initiatives of governments or social organizations) and issue-specific procedures to target and report the social and environmental impacts of CSR.

CSR impact refers to the relative improvement in the realization of CSR goals for the respective issue at the individual company level, using the period 2007–2010 as a timeframe for comparison. Examples are greenhouse gas (GHG) emissions by the company or workplace incidents.

The relationships between the three parts in the conceptual framework are expected to be as follows. A (publicly) communicated commitment to CSR through the presence of a code of conduct stimulates companies to implement organizational measures that foster the realization of CSR. If a company, for example, subscribes in its code of conduct that it aims to reduce its environmental damage, the company has a strong motivation to implement CSR measures that integrate these rhetoric into the organizational procedures to ensure that the CSR impact coheres with its rhetoric. Otherwise it runs a high risk that the company practice will be contrary to the company's code of conduct and this will negatively affect the company's reputation. Companies that have a code of conduct, but fail to show impacts that are in line with the code of conduct, may experience more reputational damage than companies who also fail to live up to expectations from society but do not have such a code of conduct. By promising to adhere to certain intentions a company is more accountable and, hence, a lack of results that align to the intentions may be perceived as hypocritical. Rhetoric, therefore, is an achievement in itself. A company that understands this will only introduce a code of conduct if organizational measures are taken that integrates the intentions with concrete actions of the company. For example, in 2005 the Chinese textile industry introduced an industry-wide code of conduct supported by global companies, Chinese suppliers, the Chinese government and large global retailers (Krueger, 2008). Signatories were required to embrace both a set of principles and management system policies and internal review processes, including a code of conduct, social responsibility targets, adequate resources for its monitoring, training and communication and documentation. Hence, the commitment expressed by support to this code of conduct would induce the adoption of generic and issue-specific CSR measures with the expectation that this would improve the impact of CSR. This results in the following hypotheses:

*H1: The presence of a code of conduct fosters the use of other instruments that implement CSR in the company.*

*H2: The instruments that implement CSR in the company foster the realization of CSR goals.*

If both H1 and H2 hold, we can conclude that CSR implementation mediates the influence of CSR rhetoric, as expressed by the presence of a code of conduct on CSR impact in terms of the realization of CSR goals. A further question that then arises is whether CSR implementation is a necessary condition for any influence of rhetoric on the impacts of CSR and, therefore, whether CSR implementation is a full mediator. Hence, we add one additional hypothesis:

*H3: CSR rhetoric by the presence of a code of conduct, if at all, fosters the realization of CSR goals only through CSR implementation.*

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In all the relationships, we control for company size, sector, the type of ownership and turnover growth. Due to a lack of awareness, financial resources and NGO and media attention, smaller companies are generally considered to invest less in CSP (Lepoutre and Heene, 2006; Studer et al., 2006; Lynch-Wood and Williamson, 2007). Therefore, we expect that CSP is positively related to company size. CSP also depends on the sector in which the company operates, as the nature of the production processes or products determines the type of social and environmental externalities that a company generates (Brown et al., 2010). In addition, the strength of the reputation mechanism and, hence, the incentive to pursue an active CSR policy differs (Brammer and Pavelin, 2006). Third, a company's CSP is also expected to be influenced by the geographic market in which the company operates (Brown et al., 2010). Companies that operate in global markets are often less restricted by national law than companies that do not operate globally. As a result, they more often face dilemmas regarding how to deal with social problems and maintain their integrity over country borders. Furthermore, when companies cross borders, there may be a stakeholder multiplier effect that stimulates companies to engage in CSP and take measures to prevent social and environmental incidents (Laudal, 2011). When crossing borders, NGOs and media, for example, can more easily target companies. This creates a need to develop a CSR policy to guarantee consistency in the way they do their business. Therefore, we control for the type of ownership (domestic or foreign). Finally, CSP may be influenced by the availability of financial resources. The theory of slack resources predicts that companies with more financial resources have more opportunities to invest in CSP (Waddock and Graves, 1997). Furthermore, high and consistent organizational success may create a sense of obligation among executives to give back to the community (Orlitzky, 2008).

### **4.3 Sample and methodology**

#### *Data*

In order to collect empirical data about CSR rhetoric, implementation and impact of companies in China, we developed a survey with three sets of questions. Collection of CSR data is inherently difficult, because of low response rates and the potential of selection bias, social desirability bias and common method bias. This is particularly true for research in CSR of SMEs, as SMEs are not generally inclined to participate in research efforts by responding to surveys, due to lack of time and capabilities. Current research into the CSR impact of SMEs is, therefore, based on case studies (Ammenberg and Hjelm, 2003; Friedman and Miles, 2001). However, the samples on which cases studies in CSR are based are often very small. For example, Friedman and Miles (2001) only study two companies from the UK, whereas Ammenberg and Hjelm (2003) study 25 Swedish companies. Therefore, surveys of a larger scale may be an important complement to existing studies, notwithstanding the fact that response rates are typically low, as is shown by recent research into CSR impact in twelve European countries with response rates varying between 0.5 percent for the UK and 4.8

percent for The Netherlands (Graafland and Smid, 2013).

Therefore, to improve the reliability of the survey data and to prevent biases in testing the hypotheses, we used several methodological procedures suggested in the literature (Lin and Ho, 2011; Podsakoff et al., 2003; Reynolds et al., 1993; Treviño and Weaver, 2003):

- We selected the addresses of 3,888 Chinese companies from the KOMPASS database, because this database only includes professional Chinese companies (as indicated by the availability of email addresses and websites).
- The survey was designed in English and then translated into Chinese by a native speaker to guarantee the quality of the phrasing of the questions.
- A member of our research team carried out four interviews (in Chinese) with managers of two domestic and two foreign companies located in China to pretest the survey questions before the final distribution of the survey took place. The results were used to identify problems in the survey, such as comprehension difficulties or inadequate response options and to improve the survey design afterwards.
- To increase the response rate, we sent two reminders within two weeks. In line with Graafland and Smid (2013), the final response rate was approximately 2.8 percent (109 responses). This low response rate implies that our research is only explorative in nature. Note, however, that low response rates do not necessarily imply high non-response bias. For example, Groves (2006) shows that (at least for household surveys) there is little empirical support for the notion that low response rates *de facto* produce estimates with high non-response bias.
- We used wave analysis to evaluate the non-response bias. For this purpose, we constructed a dummy variable with value 0 for participants that responded to the first round of the survey, value 1 for respondents that responded after the first reminder and value 2 for respondents that responded after the second reminder. Bivariate correlation analysis showed no significant negative (Spearman) correlation coefficient between this dummy and any of the CSR instruments or CSR impact variables. This indicates that the non-response bias is not important in the present study.
- To reduce social desirability response bias, we explained to the respondents in a cover letter that the survey was confidential and to be used for research purposes only. The identity of the participants would remain anonymous (even to the researchers). Therefore, the executives who filled in the survey had little reason to present a more favorable picture of their company than they knew was the case. Several studies show that self-reported behavior and actual behavior are strongly correlated (Bernard, 2000; Fuj et al., 1985; Gatersleben et al., 2002; Warriner et al., 1984). A final reason to expect that a potential social desirability response bias will not blur the analysis is that we found a high variance in the scores of the various components of CSP.
- To test for unobserved heterogeneity among companies (which might be caused, for instance, by a different level of social desirability response bias among the responding companies), we employed the endogeneity test of Hausman (see below).

- We tested for common method bias by using Harman's single-factor test. A factor analysis of all 22 variables yields 7 factors with eigenvalues greater than one and the first factor accounted for only 21.6 percent of the variance, indicating that common method bias is not a problem in our study.
- Given the small sample, we used the bootstrapping method (with 1000 resamples) to calculate standard errors (Preacher and Hayes, 2008). Because bootstrapping does not require distributional assumptions (such as normally distributed errors), the bootstrap can provide more accurate inferences when the sample size is small.

### *Measures*

Table 4.1 reports the measures that we use. The first set of questions that we asked in the survey concern the four control variables: the size of the company, the sector in which the companies operates, their type of ownership and their turnover growth in the past three years. Size was measured by the number of employees. We distinguished twelve categories. We distinguish four sectors: manufacturing (agriculture, forestry, animal husbandry and fishery; mining and quarrying; manufacture of food products; beverages and tobacco; manufacture of textile and leather products; manufacture of paper; publishing and printing; oil and chemistry), other manufacturing (metal industry; manufacture of machines; manufacture of transport equipment; other manufacture industry; electricity, gas and water supply; construction), finance (finance; real estate) and other services (restaurants, hotels and other tourism service; wholesale and retail; logistics; communication services; other service industry). For ownership we distinguish between domestically-owned companies and foreign-owned companies. Turnover growth is measured using a Likert scale with seven categories (ranging from less than -3 percent to more than +20 percent).

The second types of questions are asked to measure the CSR rhetoric and implementation. As Table 4.1 shows, we used five types of measures. The third type of questions measures the (percentage) changes in impacts for various social and environmental CSR goals during 2007–2010. We distinguish four social issues and six environmental issues. For each specific CSR issue, we distinguish seven categories. Companies that selected 'do not know' (34 percent) were excluded from the empirical analysis. Besides *changes* in impacts, we also measured the *level* of social impacts in 2010.

**Table 4.1 Measures**

Variable	Measurement	Options	Mean	SD
<b>Rhetoric</b>				
Code of conduct	Public code of conduct	A	61%	
<b>Implementation</b>				
Management systems	ISO14001/Eco-Management and Audit Scheme/Greenhouse Gas Protocol	A	15%	
	SA8000	A	8%	
Other internal measures	Director is responsible for CSR issues	A	70%	
	Managers' remuneration depends on CSP	A	40%	
	CSR training of managers and employees	A	60%	
External cooperation	Active dialogue with NGOs concerning CSR issues	A	43%	
	Cooperation with other companies in the supply chain to achieve CSR goals	A	59%	
	Participation in local initiatives of governments or social organizations	A	66%	
Issue-specific procedures	Use of targets	D	15%	
	Reporting impact	D	11%	
<b>Impact</b>				
Change in social impact during 2007-2010	Change in share of women in management	E	4.6	1.4
	Change in share of employees recruited from minorities	F	3.9	1.2
	Change in number of workplace accidents	E	3.2	1.3
	Change in share of net profit spent on social projects	F	4.5	1.3
Level of social impact in 2010	Share women in management	G	4.5	1.7
	Share employees recruited from minorities	H	2.2	1.0
	Number of workplace accidents	I	3.1	2.8
	Share of net profit spent on social projects	J	3.1	1.5
Change in environmental impact during 2007-2010	Change in GHG emissions	E	3.4	1.4
	Change in energy consumption	E	3.5	1.5
	Change in renewable energy (as % of total energy consumption)	E	3.5	1.3
	Change in water consumption	E	3.9	1.3
	Change in waste production	E	3.6	1.4
	Change in recycling of waste (as % of total waste production)	E	3.8	1.3
<b>Control variables</b>				
Company size	Number of employees	B	6.2	3.1
Sector	Manufacturing	A	18%	
	Other manufacturing	A	29%	
	Financial	A	15%	
	Other services	A	38%	
Type of ownership	Domestic	A	74%	
	Foreign	A	26%	
Turnover growth	Average turnover growth 2007-2010	C	4.5	1.4

A 2 options: Yes: 1, No: 0 B 12 options: 1=<10, 2=between 10 and 20, 3=between 20 and 50, 4=between 50 and 100, 5=between 100 and 200, 6=between 200 and 500, 7=between 500 and 1,000, 8=between 1,000 and 2,000, 9=between 2,000 and 5,000, 10=between 5,000 and 10,000, 11=between 10,000 and 20,000, 12=>20,000 C 8 options: 1=<-3%, 2=between -3 and -.5%, 3=hardly change, 4=between .5% and 5%, 5=between 5 and 10%, 6=between 10 and 20%, 7=>20%, 8=no information available D Two options: Yes: 1, No: 0; The results are the average of the results for the six categories of environmental impacts and four categories of social impacts E 8 options: 1=<-5%, 2=between -3 and -5%, 3=between -1 and -3%, 4=between -1 and +1%, 5=between 1 and 3%, 6=between 3 and 5%, 7=>5%, 8=no information available F 8 options: 1=<-2%, 2=between -2 and -1%, 3=between -1 and -.5%, 4=between -.5 and +.5%, 5=between .5 and 1%, 6=between 1 and 2%, 7=>2%, 8=no information available G 8 options: 1=0%, 2=<3%, 3=3-5%, 4=5-10%, 5=10-20%, 6=20-50%, 7=>50%, 8=no information available H 7 options: 1=0%, 2=<3%, 3=3-5%, 4=5-10%, 5=10-20%, 6=>20%, 7=no information available I Absolute number J 7 options: 1=0%, 2=<1%, 3=1-2%, 4=2-3%, 5=3-5%, 6=>5%, 7=no information available.

#### 4.4 Empirical analysis

In this section, we present the results of the empirical analysis. Before testing the hypotheses, we performed factor analysis on the instruments of CSR implementation to reduce the number of independent variables. Next, we performed bivariate correlation analysis to obtain insight into the strength of the correlations between a code of conduct, the implementation of other instruments and the realization of social and environmental goals. Third, we used multiple linear regression analysis to test the hypotheses. We tested for multicollinearity by examining the variance inflation factor (VIF), but in none of the regression analyses does the VIF of a variable exceed the cut-off value of five (Hair et al., 1998). We also used the bootstrap method developed by Preacher and Hayes (2008) to test for the significance of the mediation of the influence of the code of conduct on environmental and social impacts through CSR implementation. Finally, we test for endogeneity bias by using Hausman's endogeneity test.

##### *Factor analysis*

Table 4.2 presents the results of the factor analysis on the instruments of CSR implementation. We performed exploratory factor analysis using principal component analysis with an oblique rotation. The analysis revealed five factors with an eigenvalue greater than one and two or more items with a loading higher than 0.50. Loadings of 0.50 or greater are considered very significant (Hair et al., 1998). The factors are easily interpretable. The first factor represents management systems. The second factor represents general CSR implementation instruments concerning the internal and external environment of the company, such as employee training and external stakeholder dialogue. The third and fourth factor comprise the use of targets for environmental and social goals, respectively. The last factor includes issue-specific reporting of environmental and social impacts.

Cronbach's alpha was calculated to test the internal consistency of each factor. A test result confirms internal consistency if Cronbach's alpha exceeds the lower limit of 0.60 (Cohen et al., 2003; De Heus et al., 1995). Table 4.2 shows that only the first factor does not pass this test. Therefore, we do not use this factor in our analyses.

**Table 4.2 Results factor analysis<sup>a</sup>**

	(1)	(2)	(3)	(4)	(5)
Variables	Management systems	General measures	Environmental targets	Social targets	Reporting
ISO14001/EMAS/Greenhouse Gas Protocol	.83				
SA8000	.73				
Director is responsible for CSR issues		.73			
Managers' remuneration depends on CSP		.33			
CSR training of managers and employees		.57			
Active dialogue with NGOs concerning CSR issues		.71			
Cooperation with other companies in the supply chain to achieve CSR goals		.58			
Participation in local initiatives of governments or social organizations to achieve CSR objectives		.62			
Use of targets GHG emissions			.61		
Use of targets energy consumption			.86		
Use of targets renewable energy			.71		
Use of targets water consumption			.78		
Use of targets waste production			.90		
Use of targets recycling waste			.85		
Use of targets women in management				.78	
Use of targets recruitment minorities				.73	
Use of targets workplace accidents				.56	
Use of targets social projects				.46	
Reporting impact GHG emissions					.87
Reporting impact energy consumption					.86
Reporting impact renewable energy					.92
Reporting impact water consumption					.94
Reporting impact waste production					.94
Reporting impact recycling waste					.96
Reporting impact women in management					.53
Reporting impact recruitment minorities					.83
Reporting impact workplace accidents					.79
Reporting impact social projects					.74
Eigenvalue	1.34	2.67	4.02	1.46	8.71
Percent of variance explained	4.8	9.5	14.4	5.2	31.1
Cronbach's alpha	.56	.73	.96	.76	.89

<sup>a</sup> Principal component analysis, oblimin rotation; pattern matrix.



*Correlation analysis*

The results of the bivariate correlation analysis are reported in Table 4.3.

**Table 4.3 Results correlation analysis<sup>ab</sup>**

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
<b>CSR implementation</b>																				
2		1																		
3	.22	.41	1																	
4	.23	.31		1																
5	.21			.20	1															
6	.25			.23	.45	1														
7				.22	.35	.29	1													
<b>Environmental impact (change)</b>																				
8							.33	1												
9							.23	.82	1											
10	.23					.34	.24	.54	.50	1										
11							.68	.78	.47	1										
12			.21				.66	.75	.47	.73	1									
13					.27	.38	.41	.44	.44	.69	.49	.52	1							
<b>Social impact (change)</b>																				
14					.45	.28				.37				1						
15														.54	1					
16								.33	.27	.28	.34	.37	.36			1				
17				.22	.21									.46	.51		1			
<b>Social impact (level)</b>																				
18					.26	.22								.35				1		
19			.26											.25	.24		.26		1	
20												.27								1
21		.26	.36	.38	.21									.40	.29		.40	.24	.48	

<sup>a</sup> Spearman's rho; only significant correlations ( $p < 0.05$ ) are reported.

<sup>b</sup> 1: Public code of conduct 2: ISO14001/EMAS/GHG Protocol 3: SA8000 4: General measures 5: Environmental targets 6: Social targets 7: Reporting of impact 8: GHG emissions 9: Energy consumption 10: Renewable energy 11: Water consumption 12: Waste production 13: Recycling waste 14: Women in management (change) 15: Recruitment minorities (change) 16: Workplace accidents (change) 17: Budget social projects (change) 18: Women in management (level) 19: Recruitment minorities (level) 20: Workplace accidents (level) 21: Budget social projects (level).

The first column shows that the presence of a public code of conduct is significantly positively correlated with most instruments to implement CSR. This provides a first indication that rhetoric and implementation are related. For the impacts, the presence of a public code of conduct is only significantly correlated to the change in the share of renewable energy.

For the relationship between implementation and the realization of social and environmental goals, we find some significant correlations. Significant correlations are mostly found for the use of targets and for reporting of the realization of CSR goals.

Regarding the impacts, the results show that specific environmental impacts correlate with various other specific environmental impacts and the same applies to several social impacts. These results are robust if we control for company size, sector, type of ownership

and turnover growth. This might indicate that companies that are actively pursuing a CSR agenda for improving social and environmental impacts do not merely focus on one issue but simultaneously consider various environmental and social issues.

*Regression analysis: From rhetoric to implementation*

Table 4.4 presents the results of the multiple regression analysis for the relationship between the presence of a public code of conduct and the implementation of CSR. H1 is supported for four relationships out of six. For the social management system the effect of having a code of conduct is only slightly insignificant ( $p=0.069$ ). These findings indicate that rhetoric in the form of a public code of conduct is significantly related to CSR implementation.

**Table 4.4 Results regression analysis: implementation<sup>ab</sup>**

	(1)	(2)	(3)	(4)	(5)	(6)
	Environmental management system	Social management system	General measures	Environmental targets	Social targets	Reporting
Code of conduct	1.51*	1.32	.14*	.37*	.16**	.04
Company size	.13	.25	.00	.02	-.00	.03*
Manufacturing	2.61*	1.49	.22*	-.35	-.09	-.06
Other manufacturing	1.62	1.25	.17	.07	-.09	.05
Other service	-.23	-1.32	.14	-.25	-.07	.07
Foreign ownership	.91	-.38	.12	.01	-.04	.04
Turnover growth	-.18	-.18	.01	-.06	.02	.00
R <sup>2</sup>	.33	.26	.11	.09	.08	.16
F	24.20*** <sup>c</sup>	14.32*	1.83	1.46	1.29	2.71*
N	109	109	109	109	109	109
p-value residual public code	.21	.63	.12	.95	.57	.60

<sup>a</sup> Column 1 and 2 have been estimated by binary logistic regression; the R<sup>2</sup> is the Nagelkerke R-square; the coefficients are unstandardized coefficients; column 3-6 have been estimated by OLS; the unstandardized coefficients are reported.

<sup>b</sup> \*  $p<0.05$ , \*\*  $p<0.01$ .

<sup>c</sup> For management systems, the chi-square is reported as this is a Probit regression model.

For the control variables, we do not find any influence of foreign ownership on the use of CSR implementation instruments. Furthermore, we find that reporting of the realization of CSR goals is more common for large companies than for small companies. Management systems and other general implementation measures are used more often in the manufacturing sector (the financial sector is the reference sector), but for the other implementation instruments no sectorial effects are found.

*Regression analysis: From implementation to impact*

Table 4.5 reports the results of the multiple regression analysis for the environmental impacts. H2 is supported for general measures in the case of waste production and for issue-specific target setting in the case of renewable energy and recycling of waste. None of the implementation measures is found to reduce the growth in GHG emissions, energy and water consumption. Hence, H2 is only partially supported for environmental issues.

**Table 4.5 Results regression analysis: environmental impact<sup>a</sup>**

	GHG emissions	Energy consumption	Renewable energy	Water consumption	Waste production	Recycling waste
Code of conduct	.07	.04	.17	.13	.30	.34
Environmental management system	.55	.24	.27	.05	.49	.45
General measures	-.73	-.76	-.30	-1.02	-1.22*	-.58
Environmental targets	.17	.01	.57*	.19	.30	.59*
Reporting	1.60	1.56	.48	1.24	.45	1.23
Company size	-.04	-.01	-.01	-.02	-.04	-.06
Manufacturing	.12	.42	.72	1.16	.88	.77
Other manufacturing	.09	.87	1.45*	1.18	.71	1.07
Other services	.64	.76	1.51**	1.17	1.00	1.51**
Foreign ownership	.56	.64	.07	.45	.42	.22
Turnover growth	.04	.16	.11	.16	.25*	.05
R <sup>2</sup>	.21	.17	.33	.19	.18	.40
F	1.69	1.36	3.22**	1.60	1.45	4.34**
N	80	85	83	84	85	82
F-statistic of 4 residuals from column 1, 3, 4 and 6 from Table 4.4 <sup>19</sup>	.26	.51	.43	.79	.74	.17

<sup>a</sup> Unstandardized coefficients; \* p<0.05, \*\* p<0.01.

We find no direct effect of the presence of a public code of conduct on environmental impacts, supporting H3 that rhetoric, if any, has only environmental impacts through stimulating the implementation of CSR instruments. For the control variables, we find no effect for size or ownership. There are some sector-specific influences for other services and other manufacturing, but a clear pattern is missing.

Table 4.6 reports the results for the social impacts. We test H2 both for changes in social impacts between 2007 and 2010 and the level of social impacts in 2010. For the *change* in social impacts during 2007 and 2010, H2 is not supported for any of the four

<sup>19</sup> The F-statistic is defined as  $\{(RSSr-RSSur)/m\}/\{RSSur/(n-k)\}$ , where RSSr and RSSur denote the sum of squares of residuals of the restricted respectively unrestricted equation, m the number of restrictions and n-k the degrees of freedom (Gujarati and Porter, 2009, p. 250). The F(5,70) equals 2.35 at the 5% level.

implementation instruments and four social dimensions of CSR, except that the use of targets increases the presence of women in management. We find more support for H2 if the *level* of the social issues is taken as the dependent variable. For the share of women in management, the use of targets benefits gender equality in management. Workplace accidents are negatively affected by the factor ‘general measures’. If we test more specifically for each individual measure that this factor aggregates (see Table 4.2), we find that the number of workplace accidents is particularly negatively related to CSR training of managers and employees ( $p < 0.01$ ). The share of net profits donated to social projects is also positively related to the use of general measures as well as to the use of social management systems (SA8000). Once again, these results show only very partial support for H2.

**Table 4.6 Results regression analysis: social impact<sup>a</sup>**

	Women in management		Recruitment minorities		Workplace accidents		Budget social projects	
	Change	Level	Change	Level	Change	Level	Change	Level
Code of conduct	-.06	-.33	-.06	-.18	-.03	.78	.21	-.18
Social management system	.12	.20	.45	.75	.01	.01	.43	1.57**
General measures	.18	.07	.55	.45	-1.00	-1.97*	.65	1.44*
Social targets	2.01**	1.66**	.51	-.45	1.23	-1.40	.78	.36
Reporting	-.53	.15	-.21	-.16	-.41	1.55	-.42	-.06
Company size	.06	.06	-.06	.06	-.04	.38**	.03	.08
Manufacturing	-.40	-.89	-.26	-.28	.31	1.49	.09	-.55
Other manufacturing	.54	.66	-.27	.18	.24	.80	-.08	-.44
Other services	.04	-.30	-.17	-.32	.13	.12	.08	-.58
Foreign ownership	.36	.15	-.19	.44	.80	1.01	-.52	.02
Turnover growth	.25*	.10	.13	.09	.01	-.14	.21*	.12
R <sup>2</sup>	0.27	0.21	0.08	0.21	0.13	0.33	0.18	0.30
F	2.54**	2.22*	0.58	1.97*	0.82	4.33**	1.48	3.20**
N	87	101	85	93	71	108	88	94
F-statistic of 4 residuals from column 2, 3, 5 and 6 from Table 4.4	0.53	0.19	0.44	0.35	0.63	0.21	0.48	0.29

<sup>a</sup> Unstandardized coefficients; \*  $p < 0.05$ , \*\*  $p < 0.01$ .

Furthermore, we again find support for H3 that rhetoric in the form of a public code of conduct does not directly affect the realization of social goals. The presence of a public code of conduct does not have a significant effect on social impacts for any issue.

Regarding the control variables, we find a significant positive effect of company size on the absolute number of workplace accidents, which is evident as large companies will face

more workplace accidents than small companies merely because of their larger size. We also find a significant positive effect of turnover growth on the increase in the share of women in management and the contribution to social projects. This indicates that when turnover grows and employment increases, this creates more opportunities to improve these social issues.

### *Mediation analysis*

To explicitly test the significance of the mediating role of implementation in the relationship between rhetoric and impacts, we followed the suggestion of Zhao et al. (2010) to use the bootstrap estimation technique provided by Preacher and Hayes (2008) to provide reliable estimates of the significance of the mediation paths hypothesized in our framework. Existing research mostly uses the method described by Baron and Kenny (1986). They propose estimating three regression equations: regressing the mediators (instruments of CSR implementation) on the independent variable (code of conduct), regressing the dependent variable (CSR impact) on the independent variable (code of conduct) only and regressing the dependent variable (CSR impact) on both the independent variable (code of conduct) and on the mediator (instruments of CSR implementation). Zhao et al. (2010) show that the second type of regression equation is superfluous because in the case of competitive mediation effects or opposite signs of direct and indirect effects, one could easily fail to observe a mediating effect.

The indirect effects reported in Table 4.7 show that in half of the eight cases where the implementation of CSR instruments significantly affects the realization of CSR goals, this instrument significantly mediates the influence of the public code of conduct on impacts. In the other four cases, the mediation effect is not significant. Furthermore, in two of the four cases with significant indirect effects, the total effect of the code of conduct on impact has a sign that is opposite to what is theoretically expected, namely that the presence of a code of conduct lowers waste production or fosters the presence of women in management.

**Table 4.7 Results mediation analysis<sup>a</sup>**

Dependent variable	Mediator	Direct effect	Indirect effect through mediation	Total effect
Renewable energy	Environmental targeting	.17	<b>.32</b>	.48
Waste production	General organizational measures	.29	<b>-.18</b>	.12
Recycling of waste	Environmental targeting	.34	<b>.30</b>	<b>.63</b>
Women in management (change)	Social targeting	-.06	.24	.17
Women in management (level)	Social targeting	-.33	<b>.24</b>	-.11
Workplace accidents (level)	General organizational measures	.78	-.19	.60
Budget social projects (level)	Management system	-.18	.18	-.04
	Targeting	-.18	.12	-.07

<sup>a</sup> Unstandardized coefficients; for the indirect effects, the bootstrap estimates are reported, using 1000 bootstrap samples; bold indicates significance at the 5% level.

*Test on endogeneity*

Endogeneity of independent variables (e.g. correlation between the parameter of a variable and the error term) may arise for various reasons, such as measurement errors, simultaneity or omitted variables. Endogeneity may lead to biased estimation of coefficients in ordinary least square estimation (OLS). In our research, one potential cause for endogeneity is measurement errors due to variance in social desirability bias. Suppose, for example, that some companies are more inclined to inflate their implementation of CSR and their social and environmental impacts, then the estimation of the relationship between the implementation of CSR and social and environmental impacts will be upwardly biased. To test for endogeneity, we employ the Hausman specification test, also known as the Hausman test of endogeneity (Gujarati and Porter, 2009). For this purpose we added the residuals of the estimated models reported in Table 4.4 as explanatory variables in the models reported in Table 4.5 and 4.6 and reestimated them. For all cases, the F-test statistic for the joint significance of the four residuals for management system, general measures, use of targets and reporting supports the null hypothesis that the implementation variables are exogenous to impact.

In order to apply this procedure to test for the endogeneity of the code of conduct in the implementation equations, we first regressed the presence of a public code of conduct on the control variables. Next, we added the residual of this equation to the equations for implementation. The p-value of the residual (see last row in Table 4.4) shows that we find no indication of endogeneity in the relationship between implementation and code of conduct, indicating that the code of conduct can be taken to be exogenous in the implementation equations.

**4.5 Conclusion and policy implications**

In this chapter, we examined the relationship between CSR rhetoric as expressed by the presence of a public code of conduct (what companies say), the implementation of measures to integrate CSR into the company (what companies do) and the realization of social and environmental goals (what companies achieve).

H1, stating that the presence of a public code of conduct is significantly related to the implementation of CSR, is largely supported (in 4 out of the 6 cases). Endogeneity tests support that a code of conduct causally stimulates the implementation of CSR and not the other way around. This indicates that a public code of conduct is relevant as it significantly affects the implementation of CSR instruments. Rhetoric, therefore, is found to be a relevant prerequisite for impacts. Codes of conducts compel the company to explicitly state its specific responsibilities, thereby improving the working of the reputation mechanism. Therefore, it is important to stimulate companies to acknowledge and define responsibilities in policy statements. Because of the reputation mechanism, this step may stimulate further measures by the company to prevent reputational damage from incidents that oppose the principles stated in the code of conduct. In our sample, two-thirds of the companies publish a public code of

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conduct. This is in line with the results of Welford, who finds that a code of conduct is more common among large Asian companies than large US or European companies (Welford, 2005). Therefore, one would expect that CSR implementation will also increase in the future in China.

H2 is only partially supported by the empirical analysis. Only for 8 out of the 56 relationships do we find that implementation has a significant impact. In particular, the use of general measures reduces the production of waste and the incidence of workplace accidents while increasing the contribution to social projects. Using targets significantly raises the use of renewable energy, recycling of waste during 2007–2010 and the participation of women in management. Reporting the realization of the CSR goals has no effect on the realization of social or environmental goals.

Surprisingly, we almost did not find any significant relationship for environmental or social management systems. This is a remarkable and disappointing result. A negative explanation for this is that companies have ISO certifications only to show a piece of paper to their customers and are not genuinely interested in improving the quality of their management system (Pibia, 2009). A positive explanation is that many CSR instruments are imported from the developed world, and therefore the problems that they aim to encounter may not fit the Chinese conditions, thus creating a gap of applicability (Ip, 2009). Implementing company-specific measures does not lead to this problem, because they can be adapted to the company's needs.

Further testing on mediation effects showed that public codes have a significant reduced-form effect on the use of renewable energy and recycling of waste. However, for the other environmental and social impacts, no significant favorable impacts are found.

The government can enforce the process that leads to concrete impacts especially by improving the working of the reputation mechanism. A relevant condition of a well-functioning reputation mechanism is that information about the past actions of the company is available to all potential future trading partners (Bovenberg, 2002). Therefore, the government could strengthen the role of NGOs. Tsoi (2010) shows that many companies in China believe CSR is less developed in China, because there is no strong pressure from the media, customers or the general public. Most NGOs in China are more or less dependent on the government (Lu, 2009). They often face government restrictions that limit their operation. The Chinese government precludes the formation of NGOs that might challenge it politically, reduce their control over the whole society or restrict their autonomy. For example, NGOs are forbidden to establish regional branches. There are hardly independent NGOs and this makes it hard to develop suitable CSR policy. A complication might be that many NGOs in China are still developed-world oriented, and, therefore, not sufficiently adapted to the Chinese context. To improve information exchange, the government could also enhance the transparency of the companies. Transparency in CSP can be stimulated by an increase in the establishment of codes of conduct and certifications, greater environmental and social reporting, and an active dialogue with NGOs. The government could set some minimum standards for codes of conduct (Kolk et al., 2001) and foster standardization of social reports,

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which enables the stakeholders to compare the various companies. There were only 708 CSR reports published in 2010 and some CSR reports explained the performance in a rather vague way (SynTao, 2010). Reliable information about CSP is a precondition for investors, employees, suppliers and customers so that they can determine which companies are serious about implementing CSR. Like with NGOs, its application to the specific Chinese situation needs to be encouraged, as many standards may still be too developed-world oriented nowadays. Too much regulation to improve the transparency of companies may, however, be too costly and generate additional transaction costs. Enhancing the freedom of the media and therefore making efficient information exchange and tapping into business misbehavior more interesting for private parties, may contribute to reduce those costs. Improvement of the transparency of companies may initiate a self-enforcing spiral towards greater effectiveness of the reputation mechanism. Therefore, we expect that the costs for the government to enhance transparency will initially be high, but will decrease over time.

Besides transparency of the company, also collective punishment and rewarding by stakeholders is a relevant condition for a well-functioning reputation mechanism. The government could enforce the punishing and rewarding of stakeholders on those markets, for example by subsidizing consumer organizations, labeling systems and ethical investments.

Finally, it should be stressed that this analysis is explorative in nature given the relatively small sample of 109 companies. Although we used several methodologies to improve the quality of the data (translation by native speaker, pretesting by interviews and anonymity of respondents) and several methodologies to test and enhance the reliability of the data (wave analysis, Hausman's endogeneity test, Harman's single-factor test and the bootstrap estimation technique) and found no indication of selection bias, social desirability bias or common method bias, further research is required to validate the findings of this study.



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# Chapter 5

## Impacts of CSR for large companies

### 5.1 Introduction

Globalization, unbounded technologies and growing interdependencies between people, companies and countries have increased global productivity and chances to climb the social ladder. The negative side effects of the increased openness and economic development, however, are increasing negative external effects of production and consumption patterns which threaten human well-being. As the regulating power of national and international governments is limited in a globalized world order and the power of companies have increased, this challenge has generated a strong interest in corporate social responsibility (CSR) of companies (Jensen and Sandström, 2011). Indeed, CSR is often seen as ‘corporate externality recognition’ (Crouch, 2006).

Research has shown that internalizing externalities by CSR is potentially promising for companies, because there is some evidence that the financial performance of companies (CFP) is positively related to CSR (Van Beurden and Gössling, 2008; Margolis et al., 2007; Orlitzky et al., 2003). The causation seems to be that CSR and CFP mutually affect each other through a virtuous circle: financially successful companies spend more on CSR because they can afford it, but CSR also helps them to become more successful (Orlitzky, 2008; Waddock and Graves, 1997). Overall, these results show that companies might have a strategic incentive to invest in CSR.

However, the ‘business case’ for CSR does not automatically imply that when companies invest in CSR this also contributes to social welfare and therefore that responsible companies indeed internalize externalities themselves and supplement or take over responsibilities that are traditionally assigned to governments. More and more companies nowadays employ various kinds of CSR policies and instruments, such as codes of conduct, memberships of global initiatives like the UN Global Compact, ISO-certifications and various types of cooperation with stakeholder initiatives. Several studies have been performed to analyze the factors that influence the adoption of these practices (Aragón-Correa et al., 2004; Brown et al., 2010; Gadenne et al., 2009; Lin and Ho, 2011; Williamson et al., 2006). But the impacts of these policies and instruments in terms of the realization of social and environmental goals are uncertain. Therefore Banerjee (2008) can argue that CSR initiatives are really nothing more than window dressing. Other critical authors argue that whereas the ‘Triple P bottom line’ calls on companies to weigh effects on stakeholders and the environment alongside profit, in practice companies have co-opted it and shifted towards a business ethics agenda that supports rather than questions business practices and only adopted CSR insofar it can be aligned to strategic interests (Marens, 2008). In this way, sustainability

has been perverted to represent sustainable profits (Carbo et al., 2013). As a result, poor social and environmental business practices and outcomes continue to be the norm.

Currently, there are only few studies into the effectiveness of CSR. Ammenberg and Hjelm (2003) and Friedman and Miles (2001) looked at the impacts of environmental management systems and found that the establishment of a joint environmental management system in Sweden respectively Britain resulted in environmental improvements. However, both studies are based on a limited number of case studies of SMEs and the results are therefore difficult to generalize. Furthermore, no empirical studies are available yet that consider social and environmental impacts simultaneously in a framework in which also the implementation of CSR in the company is included. Because of this limited evidence, it remains uncertain to what extent the combination of CSR policies (rhetoric) and their implementation with instruments really leads to impacts and therefore contributes to social welfare. This is a very serious gap in the field of CSR research, because if CSR would fail to have favorable social and environmental impacts on society, the whole concept may become redundant.

This chapter therefore addresses the question whether and how CSR policies and the implementation with instruments have social and environmental impacts or whether CSR is only a rhetoric exercise. To adequately investigate this research question, we build on the literature on corporate social performance (CSP) models. CSP is considered as a broader concept than CSR' and the current CSP models stem from a long tradition. Models on CSP originated from a changing conceptualization of companies: instead of being considered as closed systems, companies were now acknowledged as open systems, intricately connected to their larger environments (Boulding, 1956). Many CSP models have been developed since (e.g. Carroll, 1979; Mitnick, 1995; Orlitzky et al., 2006; Swanson, 1995, 1999; Wartick and Cochran, 1985; Wood, 1991). From Wood's model (Wood, 1991) on, these models also consider the impacts of CSR. Based on this tradition of CSP models, we develop a conceptual framework to assess impacts at the business level.

Notwithstanding the many conceptual CSP models that have been developed during the previous decades, the empirical measurement of CSP has been turned out to be a difficult task (Wood, 2010). One of the reasons for this is that reliable reporting about CSP is lacking (Berthelot et al., 2003; Hess and Dunfee, 2009). Reliable reporting is a necessary condition for outsiders to be able to empirically study the impacts of CSR (Mitnick, 1995). Owen et al. (2000) argue that social audits are monopolized by corporate management, which uses this instrument as a means to control public relations. Social and environmental disclosures are to a large extent self-laudatory (Hooghiemstra, 2000). In order to improve information on CSP, independent CSP rating systems have been developed by rating agencies such as Kinder Lydenberg Domini (KLD), Thomson Reuters' ASSET4, Vigeo and Sustainalytics. These rating agencies assess CSP on various key CSR issues by using a coherent approach. By specializing in this field they are supposed to be better able to judge the information provided by companies and therefore improve the reliability of the information on CSP. They help to interpret the relevant information for end users and also assist by formatting the information

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in a way that allows easy comparison between companies (Hess, 2007). Therefore rating agencies contribute to reducing the gap between perceived CSP and actual CSP (Liston-Heyes and Ceton, 2009). In the empirical analysis, we therefore use disaggregated rating data from Sustainalytics to empirically test the conceptual framework.

The content of this chapter is as follows. Section 5.2 develops a conceptual framework on CSP that explicitly distinguishes CSR policies (rhetoric), the implementation of CSR and CSR impact. Section 5.3 describes the methodology and the measures used in the empirical analysis. The results of the empirical analysis are presented in Section 5.4. Section 5.5 presents the conclusion and policy recommendations.

## **5.2 Conceptual framework**

Given the numerous existing definitions of CSR in literature, defining CSR is complex (Dahlsrud, 2008). Because the definition of CSR is diffuse, also the measurement of CSR is a challenge. An attempt to integrate the various approaches to CSR into a coherent framework is the CSP model. According to Orlitzky et al. (2003), one of the most influential, parsimonious and yet comprehensive conceptualizations of CSP is Wood's CSP model (Wood, 1991, 2010). In her model, Wood synthesizes the various previous attempts to model CSP (Carroll, 1979; Preston and Post, 1975; Wartick and Cochran, 1985). Wood's model consists of three parts. The first part concerns the principles of CSR. This first part of the CSP model actually presents what most scholars nowadays call 'CSR', which is therefore narrower defined than CSP (Orlitzky, 2008; Wood, 1991). The principles are supposed to guide the second part of the model, the processes of social responsiveness. This is the action part of the model (Wood, 1991, 2010). The responsible company is engaged in environmental scanning to identify what is important for its stakeholders. Furthermore, the company is engaged in various stakeholder relations and involved in issue management. The first two parts of the model result in the final part of Wood's model that considers the impacts of CSR. Those impacts represent a critical missing piece in earlier CSP models (Wood, 2010). The impact part includes policies, programs, practices, effects on stakeholders and effects on society and is divided in three groups: effects on people and organizations, effects on the natural and physical environments and effects on social systems and institutions.

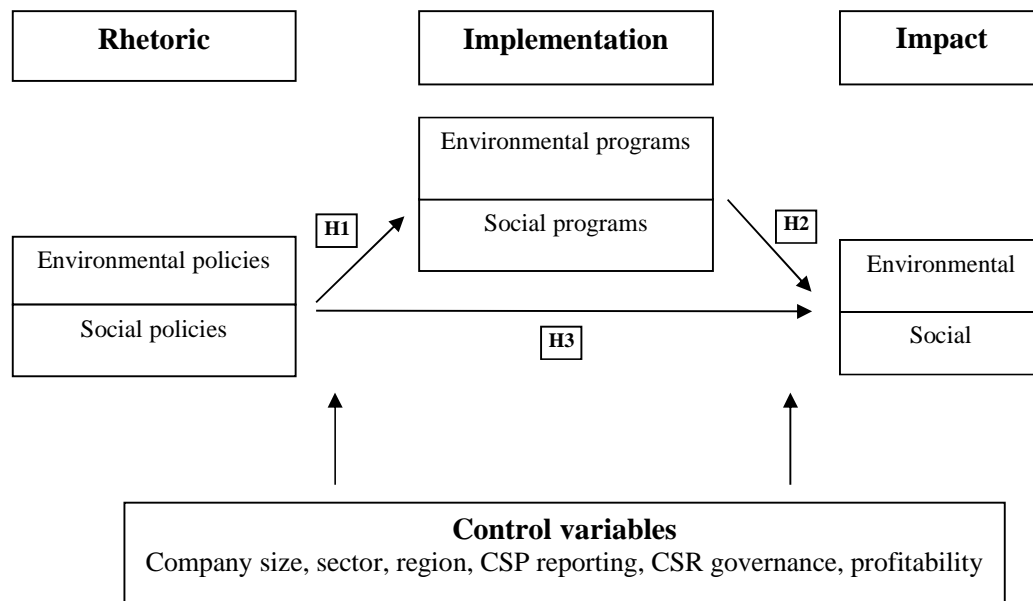
Wood's model is quite generic and therefore less applicable to analyses at the business level (Wood, 2010). Jamali and Mirshak (2007) therefore further specify the three elements in the impact part of Wood's model to social policies, social programs and social impacts. The term 'social' is broadly defined here to encompass social as well as environmental issues. This specification within the impact part resembles Wood's generic structure: policies refer to the principle part, programs to the action part and impact to the impact part of Wood's model. Although it is not identical, it also resembles the structure of the Total Responsibility Management (TRM) framework, proposed by Waddock et al. (2002) for helping companies managing their responsibilities to stakeholders and the natural environment. The TRM framework is therefore even more applied to the business level than Jamali and Mirshak's

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model. The TRM framework consists of three parts: inspiration, integration and innovation/improvement. Inspiration concerns the vision setting (the guiding part), integration concerns the integration of responsibility into the company (the action part) and innovation/improvement the crafting of continual improvement orientation (the impact part).

Like the current frameworks to assess CSR impact, we specify a conceptual framework for the impacts of CSR at the business level that resembles the generic structure of the models discussed above (a principle part that guides the action part which generates the impact). The conceptual framework that we use in our analyses is depicted in Figure 5.1. Below we explain the parts of the conceptual framework as well as the various relationships in more detail.

**Figure 5.1 Conceptual framework**



Policies refer to the company's rhetoric, defined by Rhee and Lee as 'a company's environmental [or social] intention declared externally or internally in formal arguments, including written and published symbolic statements, declarations and slogans about environmental [or social] management' (Rhee and Lee, 2003, p. 177). By stating their policies, companies acknowledge and define their responsibilities (Skjaerseth and Wettstad, 2009). Policies are often defined in dialogue with the relevant stakeholders (Bergström and Diedrich, 2011). We distinguish the environmental dimension and the social dimension. Environmental policies make statements about issues like greenhouse gas (GHG) emissions and the use of renewable energy and social CSR policies about issues like discrimination and working conditions.

Policies may or may not lead to the implementation of programs companies use to integrate CSR into the company's organization. Implementation is distinguished from the

actual realization of CSR goals. As implementation is guided by CSR rhetoric, CSR implementation can be considered as the action part of the model and the mediator between rhetoric and impact. Programs on specific issues like GHG emissions and working conditions can be part of a more generic management system. Management systems can be divided in management systems regarding environmental issues (like ISO14001, EMAS and the Greenhouse Gas Protocol) and social issues (like SA8000). Companies registered in the Eco-Management and Audit Scheme (EMAS) are legally compliant, run an environmental management system and report on their environmental impacts through the publication of an independently verified environmental report. The Greenhouse Gas Protocol (GHG Protocol) is an international accounting tool to understand, quantify and manage greenhouse gas emissions. SA8000 is a global social accountability standard for decent working conditions, developed and overseen by Social Accountability International (SAI).

The impacts of CSR refer to the realization of CSR goals in the social and environmental dimension at the business level. Examples are working conditions of employees or waste production by the company.

The relationships between the various parts of the framework are expected to be as follows. First, if CSR is cost efficient in the long run, CSR that is implemented into the company can be considered more valuable than the mere formulation of CSR policies, since once implemented, CSR is less imitable and substitutable as it becomes part of the company itself. According to the resource-based view of the company, only by implementing a CSR policy, sustained competitive advantage can be established. Underlying the resource-based view of the company is the premise that differences in company performance directly occur as a result of the collection of resources companies acquire (Branco and Rodrigues, 2006). Companies can enjoy sustained competitive advantage if they possess resources that are valuable, rare, inimitable and non-substitutable. Indeed, implementation can be considered as 'built-in' CSR and policies only as 'bolt-on' CSR (Barth and Wolff, 2009). Also Valente (2012) finds that the implementation of CSR leads to sustainable competitive advantage, as those companies are better able to manage their cognitive complexity and networks.

By implementing CSR, the company adheres to a higher level of obligation as the policy gets more specific and concrete thus making it more difficult for the company to bypass responsibility. As a consequence, underperformance will create a risk as it may reduce the credibility of the company. The reputation mechanism is expected to play an important role here in aligning rhetoric and impact. As predicted by the resource-based view of the company, reputation is a very valuable asset for companies. Because reputations are complex and the main drivers of reputation creation are embedded inside the company, they are likely to be associated with a high degree of causal ambiguity, which reduces the extent to which competitors may imitate them (Galbreath, 2005; Roberts and Dowling, 2002). In this way, reputation allows a company to achieve persistent profitability or sustained superior performance. Companies run considerable reputational risks when CSR rhetoric and CSR impact do not coincide. A company that formulates a policy but generates a negative impact will be regarded as hypocrite and, given a well-functioning reputation mechanism, be

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punished by its stakeholders. Based on these arguments, it is therefore expected that companies that have policies on CSR will also implement CSR.

Our framework also implies that CSR rhetoric is an achievement in itself, as companies that do not formulate a policy (but have negative or positive impacts) will be less subject to stakeholder's punishment and rewarding. Furthermore, rhetoric may contribute to a sense of entitlement, conviction and rationality of action in the organization (Haack et al., 2012). So companies acknowledging and defining their responsibilities through rhetoric is a necessary condition for the CSP mechanism to function well. But rhetoric can only merge into realities when they are effectuated by implementation. Implementation without policy guidance is blind and policies without implementation are empty. In our model therefore, rhetoric and realities are not two opposite concepts, as scholars often pose (e.g. Ashforth and Gibbs, 1990; Rodrigue et al., 2013), but two mutually dependent concepts.

We therefore posit two hypotheses, which in the empirical part of this paper will be tested for several specific environmental and social issues:

*H1: CSR rhetoric fosters CSR implementation.*

*H2: CSR implementation fosters CSR impact.*

If both H1 and H2 are supported, we can conclude that CSR implementation mediates the influence of CSR rhetoric on CSR impact.<sup>20</sup> A further question that then arises is whether CSR implementation is a necessary condition for any influence of CSR rhetoric on CSR impact. Or does CSR rhetoric also exert a direct influence on CSR impact? Case studies indicate that the answer to the latter question may be negative. For example, studies on the effectiveness of the Responsible Care Initiative of the American Chemistry Council (formerly known as the Chemical Manufacturers Association) showed that these initiatives were hardly effective in improving safety and environmental performance in the industry (Hess, 2007). Therefore, we add one additional hypothesis:

*H3: CSR rhetoric, if at all, fosters CSR impact only through CSR implementation.*

In testing the core relationships in our conceptual framework, we control for various influences in the external and internal business environment. First, we control for the size of the company. Several studies show that the size of the company influences its CSP. Smaller companies differ in many respects from large companies (Jenkins, 2009; Lepoutre and Heene, 2006; Murillo and Lozano, 2006; Spence, 1999). In particular, smaller companies are often organized on a more informal basis and, due to a lack of sources and experience, are less able to implement CSR programs (Lepoutre and Heene, 2006). Time, finances and a lack of skills

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<sup>20</sup> Which does not imply that rhetoric is a necessary condition for impacts: it could be that the implementation of CSR goes together with the publication of policy statements simply as a signal of a company's commitment. Still, explicitly stating its intentions with rhetoric is supposed to reinforce implementation, because, *if* CSR rhetoric is present, the next step of implementing CSR is expected to be necessary to reduce reputational risks.

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and knowledge are commonly identified as constraints to CSR by smaller companies (Studer et al., 2006).

Second, the sector in which the company operates is expected to affect CSP. The nature of the production processes or products determines the type of social and environmental externalities that a company generates (Brown et al., 2010). Also the incentive to translate CSR policies into implementation programs and impacts may differ for different sectors, as for example the reputation effects from CSP vary among sectors. Brammer and Pavelin (2006) find that environmental performance affects reputation positively in none but the chemical, consumer products, resources and transportation sector. Three of these sectors are commonly identified as industries with salient environmental issues. Finally, the sector (and regional) dummies also control for divergent trends on the demand side of the market. For example, the financial crisis after 2008 caused major shocks in the demand for goods that affected production by sectors and regions in different ways and this may have influenced the impacts at the business level.

Third, institutional theory states that the institutional setting in which companies operate differs between regions (Aguilera and Jackson, 2003; Brammer et al., 2012). In an extensive welfare state with a major role for trade unions, the role and responsibilities of businesses in society with regard to social and environmental issues have been traditionally marginal (De Geer et al., 2009). CSR will therefore remain more implicit and results from mandatory requirements (Matten and Moon, 2008). However, the environment that gives rise to an extensive welfare state may also affect the company's orientation. For example, companies operating in countries with a Rhineland model may be more inclined to balance shareholder value with the interests of other stakeholders and this may be conducive to CSP. This implies that although CSP may depend on region, the exact relationship is not *a priori* clear.

Fourth, we control for the reporting quality of the company. Transparency in CSP is one of the key conditions for a well-functioning reputation mechanism (Hess, 2007). Companies need to communicate their CSR policies, implementation and impacts in a credible way to enable outsiders to check the company's CSP (Mitnick, 1995). The quality of reporting is further enhanced when independent auditors check it and when the company uses GRI guidelines, as standardization makes it easier for the public to assess the company's responsibility.

Fifth, we control for CSR related corporate governance. CSR related corporate governance concerns the integration of specific CSR measures into the corporate governance. An important measure to facilitate the integration of CSR into the company's practices is to make the director or a member of the board explicitly responsible for CSP. The more institutionalized CSR activities are by the assignment of organizational responsibilities in the organization, the more likely it is that it will generate social and environmental impacts. This instrument can be further enhanced when managers are rewarded for good CSP by linking their remuneration to relevant CSP indicators. Mahoney and Thorne (2005) show that executive remuneration positively affects CSP, but Berrone and Gomez-Mejia (2009) and

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Rodrigue et al. (2013) do not find an effect on environmental performance and therefore conclude that these are only symbolic measures.

Finally, companies may find it easier to translate their CSR policies into (costly) CSR implementation programs if the companies are more profitable. The theory of slack resources predicts that better financial performance potentially results in the availability of slack resources which provides opportunities for companies to invest in CSR (Waddock and Graves, 1997). Another argument why financial performance may be a precursor of CSP is the ‘noblesse oblige’ view. High and consistent organizational success may create a sense of obligation among executives to give back to the community by favorable CSR impact (Orlitzky, 2008).

### **5.3 Sample and methodology**

#### *Data*

Getting good data to measure CSP and especially CSR impact is quite challenging (Wood, 2010). For our empirical analysis, we use rating data from rating agency Sustainalytics. Data from sustainability rating agencies is often used to measure CSP. Sustainability ratings (often called ‘ESG ratings’ according to their three overarching categories of environment, social and governance indicators) have some beneficial characteristics compared to other measurement methods like corporate reputation indicators (Fortune Index) or surveys. ESG ratings respect the multidimensional nature of CSP, are compiled by entities external to the company, are based on diversified data sources and do not fully rely on perceptions (Graves and Waddock, 1994; Igalens and Gond, 2005; Liston-Heyes and Ceton, 2009). Rating agencies are furthermore specialized in gathering this kind of information and therefore expected to be able to combine objective figures with subjective judgement based on their experience with the subject. This reduces the possibility of miscommunication and therefore improves the reliability of the data. Rating agencies, therefore, can be considered as important infomediaries in the research on sustainability (Dubbink et al., 2008)

Sustainalytics develops detailed sustainability data for large international companies. Companies are analyzed by local research partners in various parts of the world using one consistent methodology, designed in active dialogue with experts, users and companies. Sustainalytics applies strict criteria for analyzing companies and has adopted a stringent quality management system of peer reviewing to ensure consistency and quality. Analysts consult a large variety of sources to assess a company, such as public reporting of a company, in addition to information from non-governmental organizations (NGOs), international institutions, press and governments. When a company profile is updated, Sustainalytics initiates a dialogue with the company to give it the opportunity for feedback.

Other studies often use aggregated CSP measures to assess CSP, like a composite rating index (Chen and Delmas, 2011), or aggregate various dimensions, although those dimensions used to be only weakly correlated (Berman et al., 1999; Johnson and Greening,

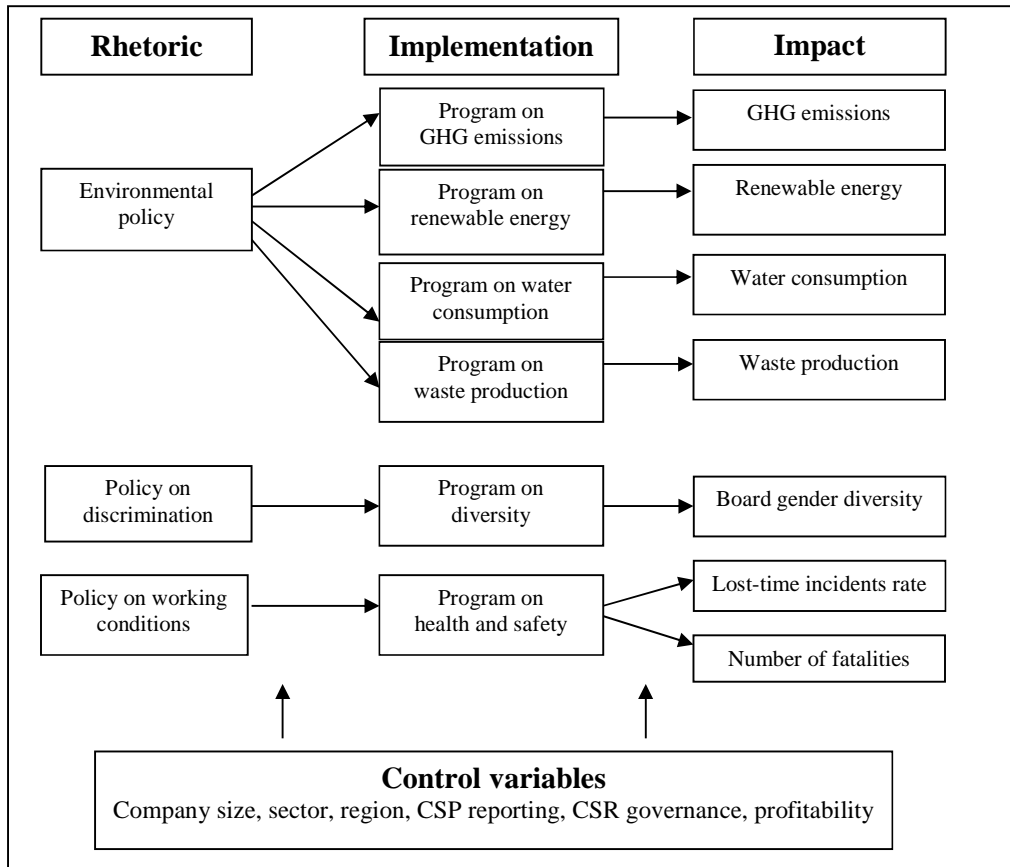
1999). Furthermore, by using aggregated ratings it is not possible to research the impacts of CSR, as for this it is necessary to distinguish and measure the various parts and the relationships of the CSP model. In our study, we therefore use the underlying indicators instead of the aggregated ratings compiled of those indicators. Sustainalytics's overall CSP rating is based on the assessment of companies on about 150 indicators, 52 of which are generic or cross-sectional indicators. All indicators are assessed on a scale from 0 (worst) to 100 (best). The company's CSP is analyzed on several topics and categorized in three overarching categories: environment, social and governance (ESG). CSP is analyzed on the use of policies (like policies on discrimination), implementation (like programs to increase diversity) as well as on impacts (like board gender diversity).

In order to test the reliability of the data of Sustainalytics, we did a comparative statistical analysis of ESG ratings of Sustainalytics and the ESG ratings of Thomson Reuters' ASSET4 for companies that are rated by both rating agencies. For 2010, we found a bivariate correlation coefficient of 0.66 ( $p < 0.01$ ) which indicates a high convergence. We did a similar analysis for Morgan Stanley's ESG ratings (previously KLD) and found a bivariate correlation coefficient of 0.63 ( $p < 0.01$ ) for the ratings in 2010 for companies that are rated by both Sustainalytics and Morgan Stanley's ESG ratings. These results contribute to the confidence of the reliability of the Sustainalytics data. For the purpose of our research, an advantage of using Sustainalytics ratings over KLD ratings is that the Sustainalytics rating system more explicitly distinguishes between ratings of policies, implementation and impacts of CSP.

In order to test for common method bias, we carried out Harman's single-factor test. If a substantial amount of common method variance exists in the data, a single or general factor that accounts for most of the variance will emerge if all the variables are entered together (Podsakoff et al., 2003). An unrotated principal component analysis on the 19 indicators taken from the Sustainalytics database that we use revealed 7 factors with eigenvalues greater than one, which together accounted for 60 percent of the total variance. The largest factor did not account for a majority of the variance (22.6 percent). This indicates that common method bias is not a great concern.

### *Measures*

Based on the available indicators in the Sustainalytics dataset, we operationalize the conceptual framework as presented in Figure 5.2. We distinguish two kinds of chains: four environmental chains and two social chains. The chains are controlled for possible interfering effects as outlined in the previous section. Table 5.1 summarizes the various measures that we use.

**Figure 5.2 Operationalization of conceptual framework****Table 5.1 Measures<sup>a</sup>**

Variable	Indicator	Description	Mean	SD	N
<b>Rhetoric</b>					
<i>Environmental issues</i>					
Environment	Environmental policy	Assessment of a company's environmental policy	40.8	34.4	1130
<i>Social issues</i>					
Discrimination	Policy on discrimination	Assessment of a company's policy to reduce discrimination	42.6	30.8	1130
Working conditions <sup>b</sup>	Policy on working conditions	Assessment of a company's formal policy on working hours and minimum wages	15.0	30.1	397
<b>Implementation</b>					
<i>Environmental issues</i>					
GHG emissions	Program on GHG emissions	Company has taken initiatives to reduce its GHG emissions from sources that are owned or controlled by the company	44.1	39.8	1130
Renewable energy	Program on renewable energy	Company has taken initiatives to increase the use of renewable energy	15.4	24.8	1093
Water consumption <sup>b</sup>	Program on water consumption	Assessment of programs to reduce water use	29.7	32.7	385
Waste production <sup>b</sup>	Program on waste production	Assessment of programs to reduce hazardous waste generation	24.4	30.7	354
<i>Social issues</i>					
Diversity	Program on diversity	Company has taken initiatives to increase the diversity of its workforce	19.7	22.6	1130
Health and safety <sup>b</sup>	Program on health and safety	Company has employee health and safety programs and related targets	50.9	33.4	417

<b>Impact</b>					
<i>Environmental issues</i>					
GHG emissions	GHG emissions	The carbon intensity of a company is calculated by dividing total annual Scope 1 & 2 absolute GHG emissions of a company by annual sales (t.CO <sub>2</sub> equivalents/USD m.sales)	46.0	39.8	1048
	GHG emissions trend	Carbon intensity trend. Current year's carbon intensity level is compared to the average of the past three years	25.2	33.4	1048
Renewable energy	Renewable energy	Share of company's renewable energy consumption	14.0	34.1	1095
Water consumption <sup>b</sup>	Water consumption	Company's external cost of water-related impacts	55.5	39.5	255
Waste production (2009) <sup>b</sup>	Waste production	Company's external cost of waste-related impacts	65.4	28.4	412
<i>Social issues</i>					
Gender diversity	Board gender diversity	Assessment of share of women on a company's board	58.6	35.2	1095
Health and safety <sup>b</sup>	Lost-time incidents rate	Assessment of trend in a company's lost-time incident rate	66.6	33.2	510
	Number of fatalities	Company is transparent about fatal accidents and how the company's performance has developed over time	58.7	26.9	457
<b>Control variables</b>					
Company size <sup>c</sup>	Total assets, total revenues	Natural logarithm of average total assets and revenues for 2007, 2009 and 2010	9.5	1.5	1102
Sector (GICS) <sup>d</sup>	Energy	Energy	.06	.24	1131
	Material	Material	.10	.30	1131
	Industrial	Industrial	.15	.36	1131
	Consumer	Consumer discretionary, consumer staples	.22	.41	1131
	Healthcare	Healthcare	.06	.24	1131
	ICT	Information Technology, telecommunication services	.11	.31	1131
	Financial	Financial	.26	.44	1131
Region <sup>d</sup>	Utilities	Utilities	.04	.20	1131
	Anglo Saxon non-EU	Australia, Canada, New Zealand, US	.48	.50	1131
	Anglo Saxon EU	Ireland, UK	.09	.28	1131
	Mediterranean Europe	Greece, Italy, Portugal, Spain	.08	.27	1131
	Scandinavia	Denmark, Finland, Norway, Sweden	.06	.24	1131
	Continental Europe	Austria, Belgium, France, Germany, Luxembourg, Switzerland, The Netherlands	.20	.40	1131
	Asia	Hong Kong, Japan, Singapore	.09	.29	1131
CSP reporting	CSP reporting quality	Company published a sustainability report in the last 2 years and it made use of the guidelines of the Global Reporting Initiative (GRI) for its report. It also provides a review of the application level of GRI.	26.9	29.2	1129
Director responsible for CSP	Responsibility for CSP at the board level	Extent to which responsibilities for CSP are implemented at the board level. Average over 2008-2010	52.7	35.7	1091
CSP bonus	Executive remuneration linked to CSP performance	Extent to which executive remuneration is explicitly linked to sustainability performance targets. Average over 2008-2010	8.9	23.0	1091
Financial return	ROE, ROA, ROC	ROE, ROA and ROC. Average over 2007-2010	7.3	5.6	1032

<sup>a</sup> If not stated otherwise, all indicators are measured on a scale from 0-100, whereby 0 is worst and 100 is best.

<sup>b</sup> Sector-specific indicator

<sup>c</sup> Measured in millions of dollars.

<sup>d</sup> Dummy variable

The first set of variables concern various CSR policies in 2008. The measure environmental policy measures the extent to which a company makes use of a formal environmental policy that guides its environmental CSR activities. We have data for this variable for almost all companies in our sample (1,130 out of the total of 1,131 companies). For social policies, we use two variables. Policy on working conditions is a sector-specific indicator and therefore only applies to specific sectors. This also implies that the sample is smaller, in this case 397 companies. The mean value of 15.0 indicates that on average the companies in these sectors have no or only a weak policy on working conditions.

For CSR implementation we use four environmental and two social measures. All measures refer to 2009. The environmental variables measure whether companies have taken initiatives to decrease GHG emissions or increase the use of renewable energy. We also use two sector-specific implementation variables: a program on water consumption and a program on waste production. Besides these four environmental implementation variables, we use two implementation variables concerning social issues, namely programs that foster diversity in the company and programs to reduce health and safety incidents.

We measure CSR impact for four environmental and three social issues. All measures are measured in 2010, except the waste production, for which we only have data for 2009. The carbon intensity of the company is measured with two variables: (i) as the assessment of the ratio between the absolute emission level and turnover in 2010 and (ii) the trend in the past three years. Sustainalytics uses the methodology developed by the Greenhouse Gas Protocol to categorize GHG emissions. For the trend in carbon intensity in 2010, Sustainalytics compares the 2010 intensity with the average of the three previous years (2007, 2008, and 2009). The third environmental impact variable concerns the share of renewable energy that the company consumes. Water consumption and waste production are again sector-specific indicators and therefore not available for all the companies in our sample. Of the three social measures, one measures the share of women on the board, whereas the others measure the trend in lost-time incidents and the number of fatalities related to health and safety issues. Both the trend in the lost-time incidents rate and the number of fatalities are sector-specific indicators.

We furthermore control for several influences. The size of the company was measured by the logarithm of the average of total revenues and total assets of the company during 2007 till 2010. By taking the average, we reduce possible biases due to temporary influences. All the financial data in our analysis is taken from the S&P Capital IQ database.<sup>21</sup> For sectors, dummies were used for eight categories. Sectors were classified according to the Global Industry Classification Standard (GICS). We aggregated the IT and telecommunication services sector for parsimonious reasons, as both sectors will resemble each other in terms of CSP. Most companies in our sample are from the financial (26 percent) and the consumer (22 percent) sector. For region, we created six regional dummy variables. A majority of 48 percent of the companies has their headquarters in an Anglo Saxon country outside the EU. We also control for the quality of the CSP reporting of the company and to control for CSR governance, we use two variables. The first variable measures whether the responsibility for CSP is located at the board level. The second variable measures whether executive remuneration is explicitly linked to CSP. To control for slack resources, we use, as suggested by Griffin and Mahon (1997), a combination of various measures for financial performance: return on assets, return on sales and return on equity. The use of three year averages reduces the impact of possible accounting inconsistencies (Johnson and Greening, 1999).

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<sup>21</sup> S&P Capital IQ is a multinational financial information provider headquartered in New York City and a division of Standard & Poor's. It covers 88,000 companies globally with over 5,000 unique financial data items and 2,500 industry-specific items.

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## 5.4 Empirical analysis

Before performing statistical analyses, we tested for heteroskedasticity. Plots showed no heteroskedasticity between the independent and the dependent variables and no problematic outliers were detected. Given the fact that our sample is reasonably large, non-normally distributed variables will not pose serious problems.

### *Correlation analysis*

We first conducted bivariate correlation analysis to study the simple relationship between the various variables. Table 5.2 and Table 5.3 show the correlation between the variables in the environmental and social chain respectively. As Table 5.2 shows, many correlations are significantly different from zero. The correlation coefficients, however, are not very high. Spearman's rho between environmental policy and programs on GHG emissions of 0.48 shows that 23 percent ( $R^2$ ) of the variation of environmental policy is shared with the programs on GHG emissions. This means that 77 percent of the variation is to be explained by other variables. This indicates that the relationships seem to be quite complex.

**Table 5.2 Results correlation analysis: environmental chains<sup>ab</sup>**

	1	2	3	4	5	6	7	8	9
2	.48**	1							
3	.30**	.48**	1						
4	.19**	.25**	.19**	1					
5	.14**	.23**	.13**	.42**	1				
6	.12**	.29**	.42**	.15**	.12**	1			
7	.18**	.43**	.23**	.12*	.12*	.16**	1		
8	.30**	.39**	.26**	.11*	.17**	.13*	.21**	1	
9	.30**	.18**	.02	.17**	.05	-.01	-.06	-.02	1
10	.05	.12**	.06	.13**	.01	.08	.01	.11	.26**

<sup>a</sup> Spearman's rho; \*  $p < 0.05$ , \*\*  $p < 0.01$ .

<sup>b</sup> 1: Environmental policy 2: Program on GHG emissions 3: Program on renewable energy 4: GHG emissions 5: GHG emissions trend 6: Renewable energy 7: Program on water consumption 8: Program on waste production 9: Water consumption 10: Waste production.

**Table 5.3 Results correlation analysis: social chains<sup>ab</sup>**

	1	2	3	4	5	6
2	.32**	1				
3	.18**	.23**	1			
4	.37**	.20**	.26**	1		
5	.30**	.37**	.09	.10	1	
6	.14**	.07	.11**	-.01	.18**	1
7	.18**	.26**	.13**	.07	.33**	.03

<sup>a</sup> Spearman's rho; \*  $p < 0.05$ , \*\*  $p < 0.01$ .

<sup>b</sup> 1: Policy on discrimination 2: Program on diversity 3: Board gender diversity 4: Policy on working conditions 5: Program on health and safety 6: Number of fatalities 7: Lost-time incidents rate.

Table 5.3 shows the correlation coefficients of the various social indicators. As with the environmental indicators, many correlations are significantly different from zero, but the absolute value is not very high, again indicating a complex causal structure.

### *Regression analysis*

We distinguish four environmental chains (GHG emissions, renewable energy, water consumption and waste production) and two social chains (gender diversity and working conditions). For each chain, we performed a multiple regression analysis that corresponds to the various paths as depicted in the framework in Figure 5.2. Table 5.4 summarizes the results for the environmental chains, Table 5.5 for the social chains. Blank cells indicate that the variable was not entered in the specific relationship. In each of the chains, we furthermore included the six control variables. For sector, we took the energy sector as reference sector. When the dependent variables are only available for specific sectors (namely for water consumption, waste production and working conditions), the sectors that are not included are indicated by an 'X' in the table. For region, we used the Anglo Saxon region outside the EU as reference region.

The results in Table 5.4 show that the existence of environmental policies has a significant positive influence on the implementation of environmental programs for GHG emissions, renewable energy, water consumption and waste production. Therefore H1 is supported for all the four environmental issues. The findings regarding the relationship between implementation and impacts are mixed. For both GHG emissions and the use of renewable energy, we find a strong and significant positive relationship between the implementation of programs and impacts. For GHG emissions, this relationship holds both for the absolute GHG emissions in 2010 as well as for the trend in GHG emissions. However, we do not find such a relationship for water consumption and waste production. This might be due to the fact that those issues are sector-specific and therefore the sample is smaller. Therefore, H2 is only partially supported for the environmental issues. Finally, for none of the issues we find direct effects of environmental policies on environmental impacts. This means that H3 is supported and therefore that, if at all, CSR rhetoric changes CSR impact only through the implementation of CSR.

For the control variables, for many issues we find a significant positive influence of company size on CSR implementation as well as on impacts. We also find various sectorial influences (compared to the energy sector), regional influences (compared to Anglo Saxon non-EU countries) and significant and substantial positive influences of CSP reporting. Furthermore, we find that when the director is responsible for CSP this improves the implementation of programs significantly in three out of the four relationships. Only the influence on programs on water consumption is slightly insignificant ( $p=0.06$ ). Making the director responsible for CSP raises the CSR impact only in one out of the four relationships. Responsibility of the director for CSP therefore mainly affects CSR impact indirectly by the mediation of CSR implementation. We do not find any significant influence of a rewarding

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scheme in which the remuneration of the directors is linked to CSP. This might be due to the relatively low number of companies that have introduced such a scheme yet. Finally, no evidence is found for the theory of slack resources: only for the impacts for the issues water consumption and waste production, financial return is significant at the 10 percent level.

**Table 5.4 Results regression analysis: environmental issues<sup>a</sup>**

	Implementation				Impact				
	Program on GHG emissions	Program on renewable energy	Program on water consumption	Program on waste production	GHG emissions	GHG emissions trend	Renewable energy	Water consumption	Waste production (2009)
Environmental policy	.25** (.03)	.07** (.02)	.13* (.05)	.16** (.06)	.06 (.04)	.01 (.04)	-.03 (.03)	.04 (.07)	.02 (.05)
Program on GHG emissions					.11** (.04)	.12** (.03)			
Program on renewable energy							.51** (.37)		
Program on water consumption								.01 (.07)	
Program on waste production									.08 (.05)
Company size	6.84** (.86)	2.11** (.62)	3.34* (1.61)	-.28 (1.56)	1.83 (1.05)	1.94* (.89)	1.61 (.84)	1.53 (2.56)	.45 (1.52)
Material	14.99** (5.14)	6.90 (3.71)	X	1.98 (5.38)	5.71 (6.06)	6.69 (5.14)	11.84* (4.98)	X	-.64 (4.88)
Industrial	13.97** (4.81)	10.06** (3.47)	-3.30 (4.89)	X	-2.66 (5.67)	3.21 (4.81)	4.75 (4.68)	-22.79 (29.14)	X
Consumer	11.11* (4.68)	13.28** (3.37)	13.79* (5.55)	-4.49 (30.00)	-7.22 (5.51)	-.55 (4.67)	4.42 (4.56)	-49.84** (6.48)	X
Healthcare	10.01 (5.80)	11.10** (4.19)	X	5.71 (5.33)	20.98** (6.82)	34.29** (5.78)	4.87 (5.64)	X	1.10 (5.99)
ICT	11.28* (5.20)	17.72** (3.76)	-10.87* (5.15)	5.82 (5.01)	2.98 (6.13)	-.04 (5.19)	3.70 (5.10)	-13.19 (28.26)	-9.32* (4.56)
Financial	-2.39 (4.79)	9.38** (3.46)	X	X	16.48** (5.67)	14.27** (4.81)	10.54* (4.66)	X	X
Utilities	13.56* (6.16)	22.81** (4.45)	-16.86** (5.90)	-.26 (5.87)	10.02 (7.26)	17.84** (6.15)	-11.53 (6.05)	20.98** (6.16)	15.76** (5.34)
Anglo Saxon EU	9.58* (3.88)	5.48 (2.80)	-.10 (6.95)	-9.33 (8.50)	10.52* (4.66)	-2.78 (3.95)	1.24 (3.77)	3.07 (8.46)	-10.66 (8.02)
Mediterranean Europe	-10.35* (4.18)	-1.11 (3.02)	-5.79 (6.73)	-8.29 (7.12)	4.07 (5.06)	1.06 (4.29)	-6.26 (4.05)	10.44 (8.21)	-5.82 (6.51)
Scandinavia	7.14 (4.37)	-1.31 (3.15)	-9.86 (6.29)	-13.93* (6.68)	22.20** (5.24)	1.59 (4.44)	9.45* (4.23)	11.26 (9.17)	-1.27 (6.27)
Continental Europe	8.54** (2.77)	4.68* (2.00)	-3.95 (4.66)	-7.42 (4.57)	9.71** (3.37)	.34 (2.86)	6.63* (2.69)	-.21 (6.59)	-3.49 (4.46)
Asia	16.75** (3.63)	-.13 (2.62)	-12.31* (5.71)	8.53 (6.21)	4.83 (4.31)	9.20* (3.66)	-11.16** (3.52)	6.43 (7.91)	7.19 (5.77)
CSP reporting	.29** (.04)	.15** (.03)	.18** (.07)	.19** (.07)	.14** (.05)	.11* (.05)	.12** (.04)	-.03 (.08)	.04 (.06)
Director responsible for CSP	.19** (.03)	.07** (.02)	.13* (.06)	.10 (.06)	.09* (.04)	.07* (.04)	.05 (.03)	.03 (.07)	.01 (.06)
CSP bonus	-.01 (.05)	.00 (.03)	.11 (.07)	-.10 (.07)	.00 (.05)	-.02 (.05)	-.01 (.04)	-.01 (.09)	.02 (.07)
Financial return	.09 (.20)	-.21 (.15)	.17 (.32)	-.05 (.32)	.21 (.24)	.16 (.20)	-.09 (.20)	.92 (.51)	.68* (.31)
R <sup>2</sup>	.39	.18	.21	.12	.18	.17	.25	.50	.12
Adjusted R <sup>2</sup>	.38	.17	.18	.08	.16	.15	.23	.45	.06
F	33.90**	11.94**	5.92**	2.63**	10.52**	9.78**	16.78**	9.54**	2.07**
N	986	986	343	316	954	954	986	170	286

<sup>a</sup> Unstandardized coefficients; standard errors between brackets; \* p<0.05, \*\* p<0.01.



**Table 5.5 Results regression analysis: social issues<sup>a</sup>**

	Implementation		Impact		
	Program on diversity	Program on health and safety	Board gender diversity	Number of fatalities	Lost-time incidents rate
Policy on discrimination	.08** (.03)		.05 (.04)		
Policy on working conditions		-.08 (.07)		-.02 (.09)	.00 (.08)
Program on diversity			.13** (.05)		
Program on health and safety				.01 (.09)	.27** (.10)
Company size	4.99** (.57)	2.27 (1.87)	3.23** (.85)	-6.73** (2.21)	4.66* (2.19)
Material	8.53* (3.36)	-11.01 (6.26)	-4.17 (4.88)	X	20.48** (7.35)
Industrial	2.54 (3.15)	X	7.36 (4.55)	-14.00* (6.16)	X
Consumer	5.14 (3.05)	-11.63 (6.40)	17.12** (4.42)	-7.33 (6.93)	3.38 (7.53)
Healthcare	4.74 (3.79)	X	15.64** (5.49)	X	X
ICT	3.07 (3.41)	.97 (6.38)	8.26 (4.93)	-13.32 (18.54)	4.34 (7.43)
Financial	1.16 (3.13)	X	17.46** (4.54)	X	X
Utilities	3.92 (4.01)	X	16.33** (5.81)	X	X
Anglo Saxon EU	-7.04** (2.55)	31.26** (11.48)	-13.60** (3.70)	-3.11 (11.42)	3.80 (13.68)
Mediterranean Europe	-4.89 (2.73)	-6.28 (11.43)	-25.66** (3.96)	-19.38 (11.31)	2.37 (13.29)
Scandinavia	2.32 (2.88)	9.89 (8.09)	17.40** (4.16)	7.01 (8.60)	6.96 (9.47)
Continental Europe	.57 (1.80)	12.89* (5.82)	-15.23** (2.60)	-7.17 (6.63)	-4.58 (6.90)
Asia	2.07 (2.42)	-2.29 (7.09)	-41.54** (3.50)	-3.49 (7.49)	-3.18 (8.24)
CSP reporting	.14** (.03)	.36** (.08)	.05 (.04)	.25** (.09)	.08 (.10)
Director responsible for CSP	.06** (.02)	-.05 (.07)	.11** (.03)	-.09 (.08)	.09 (.08)
CSP bonus	-.01 (.03)	.15 (.09)	.03 (.04)	.07 (.09)	-.11 (.10)
Financial return	-.06 (.13)	-.70 (.37)	.91** (.19)	-.67 (.45)	.42 (.45)
R <sup>2</sup>	.23	.34	.31	.31	.23
Adjusted R <sup>2</sup>	.22	.27	.29	.21	.15
F	16.34**	5.29**	22.38**	3.05**	2.80**
N	986	159	986	116	157

<sup>a</sup> Unstandardized coefficients; standard errors between brackets; \* p<0.05, \*\* p<0.01.

Table 5.5 shows the results from the regression analysis for the two social chains. Overall, the results for the social chains partly support the hypothesized conceptual framework. We do find a significant positive influence from a policy on discrimination on the implementation of a diversity program, but we do not find a positive influence from a policy on working conditions on the implementation of a program on health and safety. We should, however, keep in mind that working conditions is a sector-specific issue, and therefore also the sample is much smaller (160 companies instead of 987 companies for the other social issue). H1, which states that CSR rhetoric raises the implementation of CSR, is therefore partially supported for the two social issues. The relationship between implementation and impact is

found to be significant for two out of the three relationships, namely for gender diversity and the trend in lost-time incidents rate. This implies that the evidence for this relationship is quite strong for the social dimension, supporting H2. Finally, Table 5.5 shows that in none of the cases social policies have a significant direct effect on the social impact. Hence, we find again support for H3 that, if at all, CSR rhetoric fosters CSR impact through CSR implementation.

Size is found to have a significant positive influence on the implementation of a program on diversity, the diversity impact and the performance on the number of fatalities and the trend in lost-time due to incidents on the workplace. The coefficient for fatalities, however, is negative and the trend in lost-time positive. This implies that the larger the company, the higher the number of fatalities, but the lower the trend in the lost-time incidents rate. This is somewhat counterintuitive, as one would expect both coefficients to have the same sign. Like for the environmental dimension, we do find some differences between sectors and regions for the social dimension. The effect of CSP reporting seems to be less relevant in the social dimension than in the environmental dimension (the effect is only significant in 3 out of the 5 models). The director being responsible for CSP fosters both the implementation and impact of diversity, but no effects are found for health related programs or impacts. CSR related remuneration schemes and financial return again both have no significant effects.

#### *Mediation analysis*

In order to explicitly test the significance of the mediating role of implementation in the relationship between rhetoric and impact, we followed the suggestion of Zhao et al. (2010) to use the bootstrap estimation technique provided by Preacher and Hayes (2008). Table 5.6 presents the results.

**Table 5.6 Results mediation analysis<sup>a</sup>**

<b>Dependent variable</b>	<b>Direct</b>	<b>Indirect</b>
GHG emissions	.06	<b>.03</b>
GHG emissions trend	.01	<b>.03</b>
Renewable energy	-.03	<b>.04</b>
Water consumption	.04	.00
Waste production	.02	.01
Board gender diversity	.05	<b>.01</b>
Number of fatalities	-.02	.00
Lost-time incidents rate	.00	-.02

<sup>a</sup> Unstandardized coefficients; for the indirect effects, the bootstrap estimates are reported, using 1000 bootstrap samples; bold indicates significance at the 5% level.

As Table 5.6 shows, environmental and social policies do not have significant direct effects on the various independent variables, but only significant indirect effects through the

implementation of CSR, which supports H3. We do not find significant indirect effects for any of the sector-specific issues (water consumption, waste production, number of fatalities and trend in lost-time incidents rate).

## **5.5 Conclusion and policy implications**

In this chapter, we developed a conceptual framework to assess the social and environmental impacts of CSR and the role of CSR implementation within a company. Building on previous CSP models, our conceptual framework of CSP consists of three parts: policies (rhetoric) on CSR in which companies acknowledge and define responsibilities, the implementation of these policies to integrate CSR into the company's organization and a part that consists of the impacts on society. The three parts are mutually related. It is hypothesized that policies improve implementation and via implementation the impacts. Having a policy without implementation is not expected to have an impact. These relationships were argued by the various kinds of motivations companies might have to align rhetoric and realities. First, following the resource-based view of the company, an asset that is valuable, rare, inimitable and non-substitutable gives companies a competitive advantage. Whereas policies are relatively easy to copy, implemented CSR issues are much more company-specific and therefore more difficult to copy. Furthermore, companies whose impacts are not in line with the promises formulated in their policies run the risk of damaging their reputation even more than companies with similar (or worse) impacts that did not raise expectations by such policies. This is another reason why companies that have policies on CSR issues are expected to also implement these issues in the organization by programs. Using those programs decreases the risks of a visible and harmful gap between rhetoric and realities. The core model is controlled for several influences in the internal (company size, CSP reporting, CSR governance and slack resources) and external business environment (sector and region).

In the empirical part, we test the conceptual framework for four environmental issues (GHG emissions, renewable energy, water consumption and waste production) and two social issues (gender diversity and working conditions). Although the analysis is necessarily limited to a small subset of all social and environmental issues that fall under the CSR umbrella due to the scarce data availability, the findings partially support our hypotheses. For all four environmental issues we find that H1, which states that CSR rhetoric fosters CSR implementation, is supported. For the social issues, H1 is only supported for gender diversity, but not for health and safety issues. Although this might be due to the smaller available dataset for these issues, it could also be explained by the fact that health and safety issues are often more regulated than gender diversity. The relationship between policies and implementation might therefore be weaker for these issues. H2, which states that implementation fosters impact, is supported for two of the four environmental issues. For water consumption and waste production, no support is found, which might again be due to the much smaller sample as these issues are only applicable for companies in specific sectors. Another explanation might be that GHG emissions and renewable energy are salient issues

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and more intensively monitored by society. Not living up to the expectations on these issues may therefore be more costly, as the reputation mechanism works better for these issues. For the social issues, H2 is supported for two out of the three issues. That it is not supported for fatalities might be due to the low number of fatalities. H3, which states that rhetoric, if at all, only fosters impacts through the implementation of CSR, is supported for all environmental and social issues that we studied, showing the relevance of implementation as mediator.

Based on the conceptual framework and empirical results, the following policy implications can be formulated. First, as rhetoric seems to significantly affect the implementation of CSR and is therefore found to be an important element of CSP, it is important to stimulate companies to acknowledge and define responsibilities in policy statements. Industrial organizations and business schools can help to generate awareness of the company's responsibilities towards society. Industrial organizations can provide their members a platform for learning and experimenting with CSR and provide tools that help developing CSR policies that fit the company's values, culture and context as well as inform the company about instruments to implement their policies. In this way, the industrial organization acts as a promoter of CSP. Companies can also cooperate in networks that are aligned to business schools. Business schools may provide information and training that form the mindsets of executives. Fligstein (1990) found that corporate executives' management styles depend on the type of training they received in business schools. Hence, executives will be more likely to acknowledge CSR responsibilities if their teachers in business schools paid serious attention to it and if business schools continue to inform them through business publications on CSR.

As our results show that CSR rhetoric leads to implementation and implementation to impacts, self-regulation is found to positively contribute to social welfare. We, however, also found that an adequate implementation of CSR within the company is crucial. More specifically, CSR policies only affect social welfare when they are also implemented into the company. Various measures can be taken to help companies to implement CSR and assess the impacts of their actions. Various global management systems have been developed which companies can use to integrate specific CSR issues, like the Eco-Management and Audit Scheme (EMAS), the Occupational Health and Safety Management System and SA8000.

An adequate implementation of CSR also requires reporting of CSP. By fostering transparency, reporting will stimulate companies to narrow the gap between rhetoric and realities. The regression analysis shows that a high quality of CSP reporting directly stimulates CSR impact for GHG emissions, renewable energy and fatalities as well as indirectly the impacts for water consumption, waste production and gender diversity through fostering implementation. Also the acceptance of responsibility for CSP by the directors of the company fosters impacts. However, linking executive remuneration schemes to CSP does not seem to contribute. Apparently, the institutionalization of CSP in the company is not primarily fostered by providing board members with monetary incentives, but rather by measures that make explicit that CSP is part of their professional responsibilities as a business leader.

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Finally, governments could take several measures to enhance the process. For example, it could help improving the reporting quality by stating minimum requirements for reporting as well as fostering the comparability of social reporting by subsidizing efforts to standardize reporting formats. However, the government should be aware of the high level of diversity in CSP across different sectors and maintain a good balance between self-regulation and government regulation.

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# Chapter 6

## Impacts of CSR for SMEs

### 6.1 Introduction

Much research has been done into the relationship between corporate social performance (CSP) and corporate financial performance (CFP) (Van Beurden and Gössling, 2008; Margolis et al., 2007; McWilliams and Siegel, 2000; Orlitzky, 2008; Orlitzky et al., 2003; Waddock and Graves, 1997). However, the question whether corporate social responsibility (CSR)<sup>22</sup> contributes to the creation of social and environmental value has rarely been addressed. Nevertheless, it is a relevant question. If CSR were not to have such an impact, it is doubtful that this form of self-regulation can offer a serious alternative for direct government regulation aimed at internalizing externalities from market operations. Most previous studies merely assume such an impact and show how companies can be encouraged to get involved in CSR. But if it were to appear that CSR does not benefit, or hardly impacts on, the social and environmental dimensions of social welfare, it would not be a credible alternative for direct government regulation, and would therefore assume a lower priority than it has just now.

Several conceptual studies have been carried out to model the transformational process from the initial rhetoric to CSR, through its organizational implementation, to its impacts on society (Carroll, 1979; Mitnick, 1995; Orlitzky et al., 2006; Swanson, 1995, 1999; Wartick and Cochran, 1985; Wood, 1991). Although several empirical studies have been performed to analyze the factors that stimulate companies to take up CSR (Aragón-Correa et al., 2004; Brown et al., 2010; Gadenne et al., 2009; Lin and Ho, 2011; Williamson et al., 2006), the impacts of these policies and instruments in terms of the realization of social and environmental goals remain largely uncertain. Some empirical studies do consider the impacts for society at large, but they lack a thorough assessment of it. Ammenberg and Hjelm (2003) and Friedman and Miles (2001), for example, looked at the impacts of environmental management systems and found that the establishment of a joint environmental management system in Sweden and Britain respectively resulted in environmental improvements. However, both studies are based on a limited number of case studies of SMEs and the results are therefore difficult to generalize.

What is more, most current studies on CSP focus on large companies instead of SMEs. For 2012, SMEs accounted for about 67 percent of total employment and 58 percent of gross value added in the EU (EC, 2012). As more than 98 percent of all European businesses are SMEs, the importance of conceptualizing and analyzing the CSR impact for SMEs is evident.

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<sup>22</sup> In literature, CSP is often distinguished from CSR. In the model of Wood (1991, 2010), CSR is one of the dimensions of CSP, namely the principle dimension. Besides this dimension, CSP also encompasses the processes of social responsiveness and impacts of CSR.

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CSR has long been perceived as being the province of large companies and not necessarily well adapted to SMEs (EC, 2007). But as CSR becomes more mainstreamed and it is more commonly acknowledged that CSR is not just a 'luxury good', attention is shifting to also include SMEs (Spence et al., 2003). SMEs differ fundamentally from large companies in that they are more embedded in an informal social network rather than formal stakeholder relationships (Perrini, 2006). SMEs, for example, are more often managed by their owners than are large companies, in which ownership and control are usually separated (Jenkins, 2009; Spence, 1999). The CSR policies of SMEs therefore tend to reflect the values of the managers, because of a closer relationship between the business and the personal life of the managers (Lepoutre and Heene, 2006; Murillo and Lozano, 2006).

Many studies suppose that formal procedures are generalizations which do not fit the nature of SMEs (Perrini, 2006; Russo and Tencati, 2009; Spence et al., 2003; Studer et al., 2006; Tilley, 2000; Welford and Frost, 2006; Welsh and White, 1981). The general opinion in literature, therefore, is that SMEs should not implement CSR using formal procedures. In this chapter, we question this assumption and study whether some degree of formalization can contribute to CSR impact even for SMEs. Formal procedures can improve the internal management of CSP as they help to embed the management of CSP within the company, for example, making CSP less dependent upon the subjective judgements of its director. Furthermore, formal procedures can help in making employees and other stakeholders more aware of CSP and in keeping the focus on relevant social and environmental issues. We therefore hypothesize that the formalization of CSR by measuring it, setting targets and reporting on the realization of targets, contribute to its quality and its impact.

The content of this chapter is as follows. In Section 6.2, we introduce the conceptual framework that will guide our empirical analysis and present the hypotheses. Then, in Section 6.3, we describe the sample and the methodology. In Section 6.4 we present the results of the empirical analysis. In Section 6.5 we discuss the results and in Section 6.6 we derive policy implications.

## **6.2 Conceptual framework**

In literature, several models on CSP have been proposed that link CSR principles and processes to CSR impact. According to Orlitzky et al. (2003), one of the most influential, parsimonious and yet comprehensive conceptualizations of CSP is Wood's CSP model (Wood 1991, 2010). In her model, Wood synthesizes the various previous attempts to model CSP (Carroll, 1979; Preston and Post, 1975; Wartick and Cochran, 1985). It consists of three parts: the principles of CSR, the processes of social responsiveness and the impacts of CSR. The principles of CSR guide the processes of social responsiveness (the action part) which can result in impacts. Those impacts represent a critical missing piece in earlier CSP models (Wood, 2010). The impact part includes policies, programs, practices, effects on stakeholders and effects on society and is divided in three groups: effects on people and organizations,

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effects on the natural and physical environments and effects on social systems and institutions.

Wood's model is quite generic and therefore less applicable to analyses at the business level (Wood, 2010). Jamali and Mirshak (2007) therefore further specify the three elements in the impact part of Wood's model to social policies, social programs and social impacts. The term 'social' is broadly defined here to encompass social as well as environmental issues. This specification within the impact part resembles Wood's generic structure: policies refer to the principle part, programs to the action part and impact to the impact part of Wood's model. Although it is not identical, it also resembles the structure of the Total Responsibility Management (TRM) framework, proposed by Waddock et al. (2002) for helping companies managing their responsibilities to stakeholders and the natural environment. The TRM framework is therefore even more applied to the business level than Jamali and Mirshak's model. The TRM framework consists of three parts: inspiration, integration and innovation/improvement. Inspiration concerns the vision setting (the guiding part), integration concerns the integration of responsibility into the company (the action part) and innovation/improvement the crafting of continual improvement orientation (the impact part).

Current frameworks to assess CSR impact, however, focus on the organization and implementation of CSR for large companies and are less applicable to CSP of SMEs, defined as companies with less than 250 employees. SMEs are not just miniature versions of large companies, but are often considered as having distinct characteristics (Curran et al., 1986; Thomas, 1998). Therefore the way of conceptualizing CSP of SMEs cannot be simply copied from the analyses for large companies (Fassin, 2008).

In essence, the main difference between large companies and SMEs is that, in contrast to large companies, the majority of SMEs see little or no separation of ownership and control (Beaver and Prince, 2004; Perrini, 2006). Therefore many scholars use the social capital approach as a tool for understanding CSR in the context of SMEs, since informal relationships, trust and solidarity are important for SMEs (Avram and Kühne, 2008; Granovetter, 2000; Murillo and Lozano, 2006). Social capital in relation to SMEs is often considered as the product of cooperation between various institutions, networks and business partners and stresses the embeddedness of the SME in its environment (Spence et al., 2003). SMEs generally have a greater understanding of local cultural and political contexts, more links with local civil society and a greater commitment to operating in a specific area (Baden et al., 2011). This facilitates information exchange within networks and informal punishment of companies that do not take enough responsibility (Spence et al., 2003). SMEs are therefore better placed than larger companies to take advantage of the fact that society and the media revere qualities such as honesty, integrity and the ability to apologize (Sarbutts, 2003). Furthermore, the stocks of social capital tend to be self-reinforcing and cumulative, as trust and networks tend to grow progressively. This implies that SMEs rely much less on formal structures and rules than large companies do, and that they often prefer informal contracts to formal contracts. Furthermore, although they often do not have a long-term strategic vision, the owners of SMEs often have long-term continuity as their first priority: the survival of the

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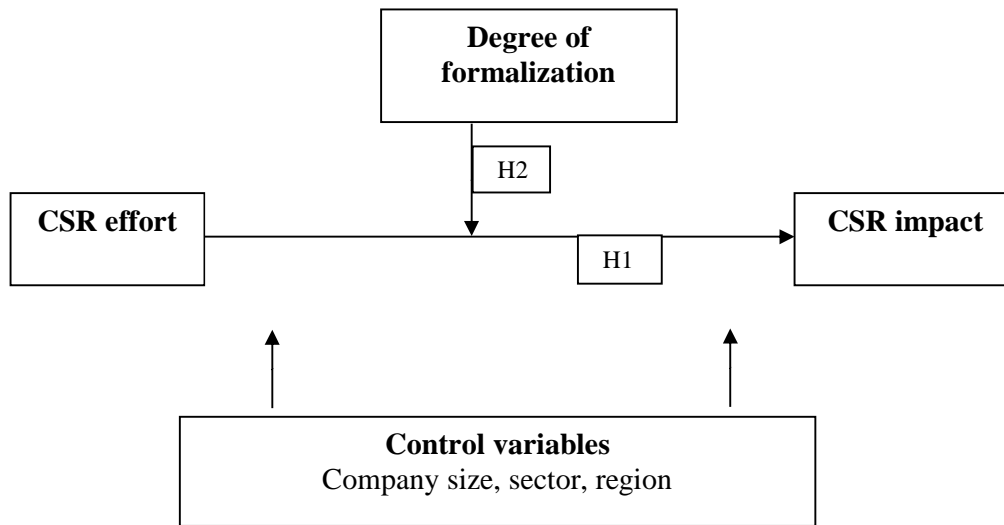


company is often linked with the objective of passing the business to their children (Bridge et al., 1998; Comte-Sponville, 2004). In order to attract and keep staff and collaborators, who could earn more from multinationals, they attempt to create a positive climate with a friendly atmosphere.

Many studies therefore suggest that SMEs have less need for formal procedures in order to successfully implement CSR. Moreover, SMEs may also experience greater difficulties in implementing formal procedures than larger companies due to SMEs relative lack of awareness, expertise and long-term strategic vision, as well as limited time and finances (Perrini, 2006; Russo and Tencati, 2009; Spence et al., 2003; Studer et al., 2006; Tilley, 2000; Welford and Frost, 2006; Welsh and White, 1981). Indeed, Graafland et al. (2003) find that large companies make more use of instruments that foster transparency in CSP, for example, a code of conduct, ISO certification and social reporting. Therefore, while CSP of large companies may be institutionalized in organizational structures and policies, CSP of SMEs predominantly depends upon the values and commitment of the current owner-manager (Wallace et al., 2010).

Still, it is not an *a priori* certainty that the effectiveness of their CSR efforts would not be improved if SMEs were to use certain types of formal procedures, namely those that increase the quality of the internal management of CSR. The directors, on whom CSP often depends in SMEs, can be erratic in their implementation of CSR and therefore not use the full potential of the company (Jones, 1999). Furthermore, owners often leave the company for personal reasons (Leroy et al., 2013), and, in these circumstances, formalization of CSR can contribute to the company's successful continuation. Formalizing CSR makes it possible for outsiders to check the CSR efforts and hence make SMEs more accountable for their past behavior. Formalization may also contribute to better internal communication and awareness of CSP and is therefore expected to influence CSR impact.

We model the effect of formalization as a moderating effect, and not as a causal effect, in order to acknowledge the fundamental difference between the paradigm for large companies and SMEs. In statistics, moderation occurs when the relationship between two variables depends on a third variable, called 'the moderator', which affects the strength of the relationship between the dependent and independent variables (Baron and Kenny, 1986). In our conceptual framework, CSR effort is the independent variable and CSR impact the dependent variable. The two hypotheses that we develop is that CSR efforts improve CSR impact and that the degree of formalization of CSR efforts, by measurement of the CSR effort, the use of targets and (internal) reporting of the realization of targets, increases the quality of the internal management and hence enforces the relationship between CSR efforts and CSR impact. The conceptual framework is depicted in Figure 6.1.

**Figure 6.1 Conceptual framework**

Our conceptual framework is used to test two hypotheses:

*H1: If SMEs put more effort into improving a concrete CSR issue, that effort generates more favorable impacts on the CSR issue.*

*H2: The influence of CSR efforts on CSR impact increases with the degree of formalization of the CSR process by measuring the CSR effort, using targets and reporting the realization of these targets.*

Efforts refer both to policies and the implementation of CSR measures. The concept of ‘effort’ encompasses both formal and informal instruments and concrete actions that aim to increase CSR impact. For example, ICT companies can take all kinds of practical measures to reduce energy consumption by their main operations. Automotive industries can take various measures to increase the use of recycled materials and minimize that of rare materials. Construction companies can take a number of practical measures to substitute energy intensive building materials by less energy intensive materials, such as the use of environmentally friendly cooling systems. These actions are often not formalized into explicit policy statements, as in large companies, but limited to making an effort to act appropriately (Fassin, 2008).

The degree of formalization of the CSR effort refers to the implementation of three types of formal procedures (as a share of formal and informal instruments): measuring CSR, setting targets and reporting the realization of these targets. The measurement of CSR first requires identification of indicators to evaluate the policies that the company is taking to improve its CSR impact. After the selection of indicators, the management will have to develop methods to collect data for the indicators. This offers quantitative or qualitative

information of the organizational performance and enables the setting of targets to improve performance in the future. A third formal step is to report the impacts. Internal reporting provides an instrument for analyzing how the impacts relate to the targets previously set. Based on this analysis, plans for improvement can be developed and targets redefined. If the impacts are also externally reported, this will enable dialogues with outsiders about the company's CSP.

The impacts of CSR, the third part of the model, refer to the realization of CSR goals in the social and environmental dimension and therefore to the contribution of CSR to social welfare. Examples of environmental impacts are the change in energy consumption, waste production and water consumption. Examples of social impacts are the change in the presence of women on the board of the company or the change in sickness absence. These impacts can be negative and therefore reduce social welfare (such as an increase in greenhouse gas (GHG) emissions), but also positive and improve social welfare (like a rise in the use of renewable energy).

There are several contextual factors that should be controlled for. First, we control for the size of the company. When a company gets larger, formal measures are necessary to organize CSR as the communication needs to span a larger space and, furthermore, outsiders are supposed to be more interested in checking the company's CSP. Also within the SME cohort, differences in size may contribute to differences in CSP.

Second, the sector in which the company operates may influence CSP. Companies in those sectors where environmental and social issues are more prominent (like the energy sector and textile sector respectively) are expected to be more prone to vigilance on these issues. The nature of the production processes or products determines the type of social and environmental externalities that a company generates (Brown et al., 2010). For example, companies in the construction sector take particular care of the safety and health aspects of CSR, because of the nature of the building process. For the textile sector, child labor and other social issues in the supply chain are a focal point (Fassin, 2008). The environmental background of suppliers is important for the construction and chemical sector, but does not receive a high priority in the retail and financial sector.

The region in which the company operates is also expected to influence CSP. CSP is conditioned by the culture and wider institutional environment of the company. One would expect that companies located in regions characterized by extensive welfare state regulation would be less inclined to assume social responsibility, because government regulation and the role of labor unions are both stronger (De Geer et al., 2009). CSR will remain more implicit than explicit and will arise out of mandatory requirements (Matten and Moon, 2008). However, the environment that gives rise to an extensive welfare state may also affect the company's orientation. For example, companies operating in countries with a Rhineland model may be more inclined to balance shareholder value with the interests of other stakeholders and this may be conducive to CSP. This implies that although CSP may depend on region, the exact relationship is not *a priori* clear.

### 6.3 Sample and methodology

#### *Data*

To collect data, we developed a survey that was targeted at SMEs. Before setting out the survey, we pretested it by interviewing ten executives from companies in various sectors. The aim of the interviews was to secure content validity by exploring the measures and terms to be used in assessing the relevance of the various factors. If the interviewees did not understand the questions or measures, we had the opportunity to seek in cooperation with them, other ways of formulating the same concept. In this way, we avoided vague questions that could lead to misinterpretation by the respondents. Subsequently, the survey was translated into the national languages of the countries in which the participating companies were located. In contrast to large companies that operate internationally, SMEs are often more locally embedded and therefore cannot be assumed to meet the current standard in international languages (English): not translating the survey into the local languages could therefore result in biases. An advanced Language Management Utility was used to coordinate translations and to ensure consistent content coverage. In order to reduce the potential for social desirability bias in the responses to the questions in the survey, we explained to the respondents in a cover letter that the survey was confidential and to be used for research purposes only. The participants would remain anonymous. Respondents thus had little reason to present a more favorable picture than they knew to be the case.<sup>23</sup> In order to provide companies with an incentive to respond, an online feedback module was created for those SMEs that completed the survey. The module allowed SMEs to compare their own CSP with sector-specific and country-specific average CSP.

The survey was sent in 2011 to 365,002 companies in twelve European countries (Austria, Denmark, Finland, France, Germany, Hungary, Italy, Poland, Spain, Sweden, The Netherlands and the UK). The e-mail addresses of companies were obtained from KOMPASS. From these 365,002 companies (2.3 percent of all SMEs in these countries), 5,317 respondents fully completed the survey (response rate of 1.5 percent). This relatively low response rate is in line with *ex ante* expectations, because the survey is electronic and requires substantial effort to complete. When we define SMEs as companies with less than 250 employees, 90 percent of those 5,317 respondents are SMEs.<sup>24</sup>

Because of the relatively low response rate and possible non-response bias, we cannot assume that the sample is representative for all SMEs in the twelve European countries. To evaluate the non-response bias, we used wave analysis which assumes that late respondents

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<sup>23</sup> Several studies show that self-reported behavior and actual behavior are strongly correlated (e.g. Beaver and Prince, 2004; Curran et al., 1986; Granovetter, 2000; Thomas, 1998).

<sup>24</sup> Bartlett et al. (2001) provide a methodology for determining if a sample size is adequate within a given population. Using their methodology, it can be estimated that 385 cases are needed to be able to generalize findings to the population of SMEs in the twelve European countries (which equals 16 million; see Table 1.3) using an alpha of .05. See also: <http://www.nss.gov.au/nss/home.NSF/pages/Sample+size+calculator> (accessed on 1-5-2014).

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are more similar to non-respondents than early respondents (Lin and Ho, 2011). For this purpose, we constructed a dummy variable with value 1 for respondents that responded to the first round, value 2 for responses after the first reminder, value 3 for responses after the second reminder and value 4 for responses after the third reminder. Bivariate correlation analysis showed that the (Spearman) correlation coefficient between this dummy and CSP is insignificant (-0.012 with  $p=0.39$ ). Based on this methodology, we therefore find no indication of a significant non-response bias.

To further check and possibly correct for non-response bias, we use Heckman's two-stage estimation procedure (Heckman, 1979; Lee, 1983). In this procedure, first a selection equation is estimated to obtain a correction factor (the inverse Mill's ratio) for each respondent. In this equation, the chance of responding to the survey is regressed on various company characteristics by using a Probit or Logit model. The inverse Mill's ratio reflects the difference between the actual response and predicted response and expresses the degree that the response is influenced by unobserved characteristics of the company. In the second step, the correction factor is added as an extra variable to the substantial equation (the model that was otherwise estimated without correcting for selection bias). By adding this variable, one removes the selection bias part from the error term, which eliminates the bias from the estimators. Results are discussed below.

In order to test for common method bias, we carried out Harman's single-factor test. If a substantial amount of common method bias exists in the data, a single or general factor that accounts for most of the variance will emerge if all the variables are entered together (Podsakoff et al., 2003). An unrotated principal component analysis on the indicators used in the survey revealed 15 factors with eigenvalues greater than one, which together accounted for 58 percent of the total variance. The largest factor did not account for a majority of the variance (13.7 percent). This indicates that common method bias is not a great concern.

To reduce the chance of inverse causality, the dependent variable is measured in terms of changes in impacts. If we would measure the dependent variables in terms of levels, one cannot disregard the possibility of inverse causality. For example, companies that have high levels of sickness absence rates or high levels of GHG emissions might be expected to be prone to put more effort into CSR and to measure, target and report on it, because their weak CSP (in terms of levels) may invoke negative responses from stakeholders. There are no theoretical reasons for such inverse causality from impacts on efforts or use of formal measures if impacts are measured in terms of changes instead of levels. Therefore, we can be more confident that if we find support for our hypotheses, we may interpret these results also as evidence of a causal relationship from efforts and implementation of formal procedures on impacts.

*Measures*

Table 6.1 and 6.2 report the descriptive statistics of the measures and control variables that are used in the empirical analysis.

As Table 6.1 shows, we distinguish four social and four environmental issues that are measured in each part of the model. For each social and environmental issue, efforts are measured on a three points scale ranging from 0 (no effort), 0.5 (incidental effort) to 1 (continuous effort). Measurement, targeting and reporting are each measured on a binary scale (0 no; 1 yes). We construct the degree of formalization for each social and environmental issue as an average of measurement, targeting and reporting. CSR impact is measured on a seven points scale for the change in the respective variable between 2007 and 2010. The cut-off values of the options differed in order to optimize the fit with the supposed distribution. For example, for energy consumption we used the following seven categories: 1 Decreased by more than 5%; 2 Decreased by 3-5%; 3 Decreased by 1-3%; 4 Not changed very much; 5 Increased by 1-3%; 6 Increased by 3-5%; 7 Increased by more than 5%. For energy consumption, we measured both the change in energy consumption as well as the change in the use of renewable energy between 2007 and 2010 and averaged the scores on the seven points scale. For waste, we measured the change in waste production and recycling of waste between 2007 and 2010 and also averaged the scores.

Table 6.2 describes the control variables. We distinguish five regions: UK (Anglo Saxon), Scandinavia (Denmark, Finland, Sweden), Continental Europe (Austria, Germany, France, The Netherlands), Mediterranean Europe (Italy, Spain) and East Europe (Hungary, Poland). Table 6.2 shows that most companies in our sample (39 percent) are from Mediterranean countries. This is due to the large number of SMEs in Italy compared to other countries (Perrini, 2006). Only three percent of the SMEs in our sample are from the UK. For sectors, dummies were used for eight categories. To define sectors, we followed the Global Industry Classification Standard (GICS). We aggregated both the IT and telecommunication services sector and the energy and utilities sector for reasons of parsimony, as it is reasonable to assume that these sectors will resemble each other in terms of CSP. Most companies in the sample operate in the industrial sector, followed by the consumer discretionary and material sector. No companies in our sample operate in the healthcare sector. To enhance the description of the sample, we used five different size classes in Table 6.2, but in the empirical analysis we will use a continuous variable to measure size (the natural logarithm of total employment).

**Table 6.1 Measures**

Variable	Mean	SD		Mean	SD
<b>CSR effort<sup>a</sup></b>					
<b>Social</b>			<b>Environmental</b>		
Women on board and in executive positions	.43	.41	GHG emissions	.58	.42
Inflow of disadvantaged people (such as ethnic minorities, handicapped people, long-term unemployed) to employment	.39	.37	Energy consumption and use of renewable energy	.67	.37
Work-life balance	.59	.37	Water consumption	.60	.40
Work place accidents and sickness absence rate	.81	.32	Waste production and recycling of waste	.77	.34
<b>Degree of formalization<sup>b</sup></b>					
<b>Social</b>			<b>Environmental</b>		
Women on board and in executive positions	.10	.18	GHG emissions	.15	.24
Inflow of disadvantaged people (such as ethnic minorities, handicapped people, long-term unemployed) to employment	.11	.18	Energy consumption and use of renewable energy	.22	.25
Work-life balance	.14	.19	Water consumption	.19	.23
Work place accidents and sickness absence rate	.27	.25	Waste production and recycling of waste	.24	.23
<b>CSR impact<sup>c</sup></b>					
<b>Social</b>			<b>Environmental</b>		
Percentage of women on board and in executive positions	4.25	1.00	GHG emissions	3.54	1.20
Inflow of disadvantaged people (such as ethnic minorities, handicapped people, long-term unemployed) as percentage of total inflow	4.20	.91	Energy consumption and use of renewable energy	3.66	.79
Number of overtime hours as a percentage of total FTEs	3.90	1.12	Water consumption	3.65	1.11
Sickness absence rate	3.84	1.01	Waste production and recycling of waste	3.62	.80

<sup>a</sup> Measured on a three points scale: 0 (no effort), 0.5 (incidental effort), 1 (continuous effort).

<sup>b</sup> Constructs based on average scores for measurement, targeting and reporting (each of which are measured on a binary scale).

<sup>c</sup> Measured on a seven points scale.

**Table 6.2 Control variables (% of respondents)**

<b>Company size (in FTE in 2007)</b>			
0-10	27	100-250	9
11-50	37	>250	9
50-100	18		
<b>Sector</b>			
Energy	4	Consumer staples	4
Material	17	ICT	4
Industrial	19	Financial	3
Consumer discretionary	18	Other	31
<b>Region</b>			
UK	3	Continental Europe: Austria, France, Germany, The Netherlands	31
Mediterranean Europe: Italy, Spain	39	East Europe: Hungary, Poland	13
Scandinavia: Denmark, Finland, Sweden	14		

## 6.4 Empirical analysis

Before performing statistical analyses, we screened the data by testing for heteroskedasticity and outliers. No problems were detected here. Given the large sample size, non-normally distributed variables will also not pose problems.

### *Correlation analysis*

Table 6.3 and 6.4 report the results of the bivariate correlation analysis of the variables concerning, respectively, social and environmental effort, formal implementation and impacts.

As Table 6.3 shows, the formal implementation of social issues and the size of the company show a significant positive correlation for all issues. Effort, formal implementation and the corresponding impact part are highly correlated, except for work-life balance for which the correlation is not significant. As expected, the correlation between the formal implementation of measures to counter work accidents and the number of work accidents is negative.

**Table 6.3 Results correlation analysis: social issues<sup>ab</sup>**

	1	2	3	4	5	6	7	8	9	10	11	12
2	.32**	1										
3	.31**	.23**	1									
4	.21**	.22**	.25**	1								
5	.51**	.23**	.20**	.15**	1							
6	.22**	.56**	.14**	.15**	.43**	1						
7	.26**	.18**	.42**	.18**	.44**	.37**	1					
8	.08**	.14**	.12**	.35**	.26**	.27**	.29**	1				
9	.23**	.13**	.11**	.11**	.20**	.11**	.11**	.09**	1			
10	.03	.27**	.08**	.08**	.06**	.22**	.06**	.08**	.17**	1		
11	-.01	.04**	-.01	-.03*	-.02	.00	.01	-.03	.08**	.16**	1	
12	-.02	-.02	-.07**	-.07**	-.04**	-.04**	-.03*	-.10**	-.01	.02	.18**	1
13	.09**	.25**	.03**	.21**	.17**	.24**	.11**	.33**	.18**	.12**	.02	-.06**

<sup>a</sup> Spearman's rho; \* p<0.05, \*\* p<0.01.

<sup>b</sup> 1: Effort women on board 2: Effort disadvantaged 3: Effort work-life balance 4: Effort work accidents 5: Formalization women on board 6: Formalization disadvantaged 7: Formalization work-life balance 8: Formalization work accidents 9: Impact women on board 10: Impact disadvantaged 11: Impact work-life balance 12: Impact work accidents 13: Company size.

Table 6.4 shows that each formally implemented environmental issue demonstrates significant positive correlation with the size of the company and that effort, formal implementation and impacts are highly correlated, except for waste production and recycling of waste, for which the correlation is not significant. Also the signs of the coefficients are as expected.



**Table 6.4 Results correlation analysis: environmental issues<sup>ab</sup>**

	1	2	3	4	5	6	7	8	9	10	11	12
2	.58**	1										
3	.48**	.56**	1									
4	.43**	.48**	.52**	1								
5	.50**	.35**	.28**	.24**	1							
6	.35**	.50**	.30**	.28**	.58**	1						
7	.29**	.33**	.54**	.31**	.48**	.63**	1					
8	.28**	.31**	.30**	.44**	.50**	.63**	.62**	1				
9	-.27**	-.20**	-.15**	-.14**	-.28**	-.20**	-.17**	-.16**	1			
10	-.7**	-.24**	-.14**	-.12**	-.16**	-.24**	-.16**	-.15**	.47**	1		
11	-.10**	-.13**	-.24**	-.15**	-.11**	-.16**	-.25**	-.16**	.44**	.45**	1	
12	-.11**	-.12**	-.10**	-.18**	-.11**	-.14**	-.13**	-.18**	.24**	.37**	.34**	1
13	.17**	.20**	.11**	.11**	.25**	.29**	.20**	.24**	-.09**	-.09**	-.03	-.052**

<sup>a</sup> Spearman's rho; \*  $p < 0.05$ , \*\*  $p < 0.01$ .

<sup>b</sup> 1: Effort on GHG emissions 2: Effort on energy consumption and use of renewable energy 3: Effort on water consumption 4: Effort on waste production and recycling of waste 5: Formalization of GHG emissions 6: Formalization of energy consumption and use of renewable energy 7: Formalization of water consumption 8: Formalization of waste production and recycling of waste 9: Impact GHG emissions 10: Impact energy consumption and use of renewable energy 11: Impact water consumption 12: Impact waste production and recycling of waste 13: Company size.

### *Regression analysis*

Table 6.5 and 6.6 report the estimation results of the multiple regression analysis for social issues and environmental issues respectively. As discussed above, we applied Heckman's two-stage estimation procedure to correct for a possible selection bias. We first estimated the inverse Mill's ratio by regressing the chance that a company responded to the survey on the number of employees, sector, region and year of foundation of the company for the companies for which data for these explanatory variables was available (89% of the full sample of 365,002 companies) by using the method proposed by Lee (1983). The inverse Mill's ratio was subsequently added to the various models in Table 6.5 and 6.6. As for most models the inverse Mill's ratio has a significant effect, it seems important to correct for selection bias, as unobserved factors that affect the response rate of the company apparently also influence their CSR impact. But although the value of the estimators slightly change when adding the inverse Mill's ratio, the effects of most parameters are still significant when the models are estimated without including the inverse Mill's ratio.

**Table 6.5 Results regression analysis: social issues<sup>a</sup>**

	IMPACT			
	Women on board	Recruitment disadvantaged	Work-life balance	Sickness absence
Effort on issue	.39**	.46**	-.10*	-.11*
Effort * Degree of formalization of issue	.39**	.55**	.07	-.36**
Company size	.07**	-.01	.02*	.01
Energy	.28**	.07	.26	.14
Material	-.01	-.02	-.08**	.04
Industrial	.05	.04	.03	.05
Consumer discretionary	.08	.05	.00	-.01
Consumer staples	.22**	.10	.16	-.02
ICT	.14*	.06	-.00	.03
Financial	.22*	-.06	.00	.07
Mediterranean Europe	-.15	-.05	-.02	.30**
Scandinavia	-.01	.15	.19	.16
Continental Europe	.08	.12	.33**	.37**
East Europe	-.16	-.02	.18	.32**
<i>Inverse Mill's ratio</i>	.08*	-.01	.18**	.13**
R <sup>2</sup>	.08	.08	.03	.02
Adjusted R <sup>2</sup>	.07	.07	.03	.02
F	25.28**	24.99**	8.91**	7.13**

<sup>a</sup> Unstandardized coefficients; \* p<0.05, \*\* p<0.01.

**Table 6.6 Results regression analysis: environmental issues<sup>a</sup>**

	IMPACT			
	GHG emissions	Energy	Water	Waste
Effort on issue	-.43**	-.06**	-.36**	-.05**
Effort * Degree of formalization of issue	-.88**	-.08**	-.76**	-.08**
Company size	.03*	.00	.03**	.00*
Energy	.17	.01	.26**	.02
Material	-.02**	-.01	.01*	.01
Industrial	.05	.01	.14**	.01
Consumer discretionary	.02	.00	.07	.01
Consumer staples	.03	.01	.00	.00
ICT	.01	.01	.13	.01
Financial	-.04	-.02	-.04	.01
Mediterranean Europe	.13	.01	.21*	.07**
Scandinavia	.09	.02	.20	.07**
Continental Europe	.09	.02	.28**	.07**
East Europe	.01	.03*	.20	.07**
<i>Inverse Mill's ratio</i>	.13**	.01*	.14**	.01**
R <sup>2</sup>	.08	.09	.07	.06
Adjusted R <sup>2</sup>	.08	.08	.06	.06
F	26.24**	28.55**	22.10**	19.56**

<sup>a</sup> Unstandardized coefficients; \* p<0.05, \*\* p<0.01.

Overall, the results show that when a company makes an effort on an issue, there is a significant positive generation of CSR impact. The only exception is work-life balance, for which the influence is not significant. Looking at the influence of the moderator of the degree of formalization, we see the same pattern as for the influences from effort: for each issue

where CSR effort has a significant influence on impacts, the degree of formalization also has a significant influence.

For the control variables, the evidence is mixed. Overall, Continental European companies seem to have slightly better social CSR impact than the UK (the reference region), except for sickness absence. SMEs in the UK have better environmental impacts than SMEs from other regions. For the sectorial differences the evidence is mixed. The material sector performs significantly better than the reference group ('other sectors') on the implementation of almost each environmental issue. The size of the company significantly influences the impact of CSR (negatively) for all environmental issues, except GHG emissions, but only for one out of the four social issues (women on board). This suggests that much of the influence of size is already taken over by the formalization variable, which is highly correlated with the size of the company, as we found in the previous subsection.

## **6.5 Discussion**

In this chapter, we developed and tested a conceptual framework on the impact of CSR for SMEs. Until now, CSR impact have not been adequately assessed and therefore it remains uncertain whether self-regulation through CSR can really serve as an alternative for direct government regulation to internalize externalities from market operations. Furthermore, in this chapter we focused on SMEs and not on large companies, as SMEs generate the biggest part of GDP in the EU. Because of their smaller size, family business culture and embeddedness in their local environments, SMEs are less inclined to use formal procedures for CSR. Nevertheless, formal procedures may help the internal management of CSP. To test this hypothesis, our framework for SMEs explicitly incorporates the degree of formalization to foster CSR impact, not as a causal effect, but as a moderator on the causal effect of CSR efforts on CSR impact. In our empirical analysis, we make use of a unique dataset with 5,317 SMEs from twelve European countries to estimate our framework.

Results show that for most social and environmental issues, making an effort on an issue generates a significant and substantial impact. Hence, we find evidence for H1 that if SMEs are putting effort into CSR, the impact of CSR improves. This indicates that those SMEs making a continuous effort really contribute to social welfare.

Furthermore, formalizing CSR by measuring performance, using targets and reporting also contributes to the impacts by positively moderating the relationship between CSR effort and the resulting impacts. This supports H2 that the intensity of formalization of CSR issues moderates the relationship between making an effort and the resulting impact. This result challenges the common opinion in literature that SMEs, in contrast to large companies, should not formalize CSR because they are different in nature from large companies (e.g. Fassin, 2008). Although the result does not falsify this commonly-held opinion, since we explicitly model a moderating effect and not a causal effect, thereby acknowledging the need to use a different approach for SMEs, it does show that formalization might contribute to impacts. In particular, the interaction between subjective informal CSR measures and objective formal

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measures seems to be very fruitful in generating impacts for SMEs. A reason might be that formalization helps SMEs to create awareness and makes CSP less dependent upon the sometimes erratic subjective judgements of the director.

As expected, size is positively correlated with the formalization of CSR. Larger companies, even within the SME cohort, often have more time and finances to formalize CSR (e.g. Spence et al., 2003) and, furthermore, need a more systematic and therefore formal structure to communicate CSR within the company and to its external stakeholders. This result adds support to the common opinion in literature that smaller companies should be analyzed in a different way to large companies, and that we correctly model the formalization of CSR as a moderating effect and not just another causal effect.

## **6.6 Policy implications**

The findings of the analyses give rise to the following policy implications. It is important for governments to acknowledge the specific nature of SMEs. Because of their smaller size, imposing regulatory compliance of CSR disproportionately increases the non-productive overheads of SMEs (Haigh and Jones, 2006). However, whenever SMEs become aware of CSR or, in a later phase, gain practical experience of the benefits of CSR, they tend to become more involved and this might subsequently generate a self-enforcing spiral. Governments should therefore help SMEs take their first steps, for example through initial awareness raising and, in a later phase, by suggesting the tools to deal with CSR more formally. This will enhance the self-enforcing spiral, as our results show that formalization has a positive moderating effect on impacts. Awareness raising campaigns, surveys and the accompanying feedback tools are therefore taken to be appropriate instruments to foster CSR impact from SMEs. Industrial organizations could also play a role here, as they are often better informed about the specific circumstances of their members. Furthermore, they can help to overcome the specific constraints on SMEs, such as lack of time, finances and knowledge (Klewitz and Zeyen, 2010). They can provide SMEs substantive information about current trends and requirements in CSR and can serve as a mechanism through which SMEs can form networks that collectively work on CSR and possibly reinforce each other. When SMEs are on track, SMEs may also be encouraged to formalize their CSR themselves and this may help them with their internal management and to strengthen themselves. This will reinforce the self-enforcing spiral to greater awareness and improve the quality and durability of the management of CSR because subjective visions are supplemented with objective measures (and *vice versa*).

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# Chapter 7

## Conclusion

In the first section of this chapter, we discuss the findings of the previous chapters. The findings on the drivers of CSP and the impacts of CSR will be further interpreted in the discussion in Section 7.2 and 7.3 respectively. Based on this discussion, we formulate policy implications in Section 7.4 and limitations and directions for further research in Section 7.5.

### 7.1 Findings

The central questions posed in this dissertation are what the drivers of CSP are and whether intentions of companies as formulated in CSR policies and implemented by programs really result in impacts. The rationale for CSR is that it might be an alternative for direct government regulation to counter negative externalities from free market operation. In a complex economically liberated, globalized world order, in which the regulating power of governments seems to be less effective and the transaction costs of direct regulation high, more self-regulation by the market might improve social welfare. As companies are often a powerful market player, they are the natural choice to take the lead in taking over some of the responsibilities that has traditionally been assigned to governments. Although in the recent decades companies indeed seem to take over some of these responsibilities, no research has been done yet to the question whether CSR indeed benefits social welfare, and can therefore be a credible alternative to direct government regulation on markets, or whether it is only a way of window-dressing as many people and authors claim.

This dissertation explores these questions by conceptualizing the relevant relationships and empirically tests these by using various types of data. We first introduced the conceptual framework building on the tradition of CSP conceptualizations and by acknowledging that CSP is built on the notion that society and the company are not two completely distinct entities, as in the traditional way of thinking, but intertwined and therefore not completely distinct, nor identical: companies are operating within society and society is inherently part of the companies. We then split the analysis in two main parts. The first part analyzes the drivers of CSP and therefore the effects of society on the company. We performed two analyses based on two different datasets. The first analysis studied the economic and institutional drivers for large companies based on CSP data from a rating agency, supplemented with survey data on the drivers of CSP. The second analysis studied the economic, institutional and internal drivers for SMEs and large companies together, completely based on a large scale survey that we sent out in 2011 to mainly SMEs in twelve European countries. These two types of datasets were also used in the second part of the thesis, but then we focused on the effects of the company on society and therefore the impacts of CSR. In the chapter based on the SME survey, we explicitly acknowledged the different nature of SMEs compared to large

companies and therefore reflect on the use of formalizations, which in literature are often considered as being less appropriate for SMEs. In that part, we also added a chapter on the impacts of CSR in China, to explore how the often Western oriented way of doing CSR might be applied to the Eastern Chinese culture.

### *Drivers of CSP (Chapter 2 and 3)*

After the introductory chapter, Chapter 2 presents the analysis of the economic and institutional drivers of CSP for large companies. Based on Brown et al. (2010), Campbell (2007) and Laudal (2011), we hypothesize a conceptual framework in which we focus on the influence of competition and institutional conditions. We use rating data from a sustainability rating agency to measure CSP and a survey to gather data on drivers, to which 212 companies from various parts of the world responded.

Results from the empirical analysis show that it is important to distinguish the influence from price competition and technological competition on CSP. We do not find a significant effect of price competition on CSP (also not a non-linear effect). However, results indicate that technological competition positively affects the level of CSP, which might be explained by acknowledging that CSP might be positively associated with innovation capacity and that technological competition might generate awareness among companies on the strategic benefits of CSP. Besides technological competition, also the transparency in CSP is found to have a significant effect on the level of CSP of companies. Companies that are subject to mandatory reporting and a higher level of non-governmental organization (NGO) and media attention do have higher levels of CSP, indicating that higher levels of transparency and pressure from NGOs enhance CSP. Another explanation might be that they make companies more aware of CSP. We do not find evidence that collective self-regulation through industrial organizations and business schools enhance CSP, which might be due to a lack of awareness of industrial organizations and business schools of the benefits of CSP. The availability of slack resources also does not have a significant effect on the level of CSP and therefore the theory of slack resources is not supported. We furthermore found that larger companies tend to have higher levels of CSP and that companies from European countries with in general a fairly large welfare state outperform companies from Anglo Saxon and Asian countries. Although the latter finding is difficult to interpret unequivocally, it might be explained by the notion that European companies tend to focus less on shareholder value only and that a higher level of government regulation stimulates rather than crowds out companies to behave responsibly.

In Chapter 3, we again study the drivers of CSP, but building on Chapter 2 we now also explicitly model the transmission mechanism between institutions and CSP by mediating structures and internal motivational variables. The survey was targeted at SMEs, and therefore framed accordingly, but also sent to large companies. Besides studying the effects from economic and institutional drivers on CSP, we also studied the effects of stakeholder's responsiveness and strategic motivation of companies. As 5,317 companies fully completed

the survey, we had enough observations to test the full structure of the model by using structural equation modeling.

Results show that the strategic motivation of companies to CSP is an important antecedent for the realized level of CSP. Strategic motivation can be further specified by the innovation motive, profit motive, regulation motive and reputation motive, of which especially the reputation motive is found to be highly significant and substantial. The four types of motivation seem to be highly correlated and therefore jointly measure the underlying concept of strategic motivation.

The strategic motivation is found to be positively affected by the responsiveness of the labor and product market on the company's level of CSP. When employees favor companies with higher levels of CSP and customers tend to buy more products or pay higher product margins for products from responsible companies, this improves the company's strategic motivation for CSP and therefore the level of the company's CSP. The responsiveness of the capital market, though, is not in line with the expectations, as the effect is significant, but negative, although not very substantial. This indicates that banks nowadays do not provide much strategic motivation to companies to enhance CSP.

The empirical results furthermore indicate that the responsiveness of the stakeholders on the labor, product and capital market is affected by the transparency of the company and the level of technological competition. Only when the CSP of companies is transparent, stakeholders on the various markets are enabled to take up their role in motivating companies to enhance their CSP, otherwise they lack the information to reward or punish companies. Furthermore, technological competition is found to be a relevant condition for stakeholder's responsiveness, as without enough competition, stakeholders do not have alternatives and therefore lack the power to respond to irresponsible behavior. Price competition, however, does not have any effect on the stakeholder's responsiveness nor directly on the level of CSP. This again shows the relevance of distinguishing price and technological competition when considering the effect of competition on CSP.

Technological competition also has a direct effect on CSP on top of the indirect effects through mediation by stakeholder's responsiveness and strategic motivation. The direct effect of technological competition on CSP may point at possible positive effects from technological competition on innovation and from innovation on CSP, even when companies are not explicitly aware of this relationship and therefore does not improve their strategic motivation for CSP (the innovation motive is one of the motives of companies that fosters CSP). We also find a direct effect from the monitoring of NGOs and media on CSP, which can be explained by the fact that direct contacts between the company and NGOs through stakeholder dialogues may make managers more aware of the strategic benefits of CSP, but may also contribute to making managers aware of moral dimensions of being socially responsible and thus stimulate their CSP for other reasons than strategic benefits. In contrast to the analysis in Chapter 2, where we did not include a complex structure into the conceptual framework, we can therefore now say that both interpretations of the effect of transparency in CSP are adequate, as both the direct and indirect effects of transparency in CSP are significant.

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Again, we find that the larger the company, the higher the CSP of the company, both directly and indirectly through the higher level of stakeholder's responsiveness. Furthermore, as expected, companies on the business-to-consumer (B2C) market tend to have higher levels of CSP than companies operating on a business-to-business (B2B) market, probably because the latter types of companies will in general be less visible and therefore more difficult to target by its various stakeholders. We furthermore find that companies from the UK outperform companies in other European regions, which might indicate a larger potential for CSP in Anglo Saxon capitalism. The interpretation of this result is however complicated as the regional differences might capture several influences, like culture but also differences in regulatory conditions. Finally, the results indicate small sectorial differences: CSP tend to be slightly above average in the energy and utilities sector and slightly below average in the industrial, financial and ICT sector. Although above average CSP in the energy and utilities sector is expected, as those sectors have more salient CSR issues, lower CSP in the industrial sector is difficult to explain.

#### *Impacts of CSR (Chapter 4, 5 and 6)*

Do we take CSP in the first part of this dissertation as an aggregated construct to focus completely on its drivers, in the second part we focus on the different components of CSP and explicitly model CSP as a relationship between what companies say they do (rhetoric), the implementation of CSR and what companies actually achieve (realities). This second part consists of three analyses: an explorative study into CSP in China, a study into the relationship between CSR policies (rhetoric), implementation and impacts for large companies worldwide and a study into CSR impact in Europe that explicitly recognize the special nature of SMEs that tend to organize CSR in a less formal way than larger companies.

In Chapter 4, we perform a study into the CSP of companies in China. This study is explorative as we use data from a small survey to which only 109 companies responded. China is an interesting case as its business recently dealt with many social and environmental scandals and furthermore because of the special nature of its economy. It is therefore interesting to explore whether CSR, often considered as a typical Western notion, also works in China and how it works. Results of the empirical analysis show that Chinese companies that explicitly state their commitment into a code of conduct tend to better implement CSR through various organizational measures. Companies that communicate their commitment (rhetoric) to external stakeholders subject themselves to the reputation mechanism and are therefore supposed to have a strategic incentive to organize CSR well into the company. However, we do not find much support that the implementation of CSR also leads to real achievements and therefore provides a contribution to social welfare for most issues examined. Only 8 out of the 56 relationships we studied showed a significant CSR impact. Also the impacts of the use of environmental and social management systems were found to be very small. Although we found some significant indirect effects from the use of public codes on CSR impact through the implementation of CSR, no significant direct effects were

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found, which suggests that if codes of conduct contribute to impacts, then only through the implementation of CSR. Improvements in the consumption of renewable energy and the recycling of waste, for example, were only found to be significant when mediated by the use of environmental targets.

In the second analysis, in Chapter 5, we extend the model on CSP and use rating data for 1,131 large companies worldwide to study the relationship between CSR rhetoric, CSR implementation and CSR impact. As we argue, both rhetoric and implementation are important factors for CSR to have impact. As we have rating data for three years, we can use time lags in the model. We test the model for four environmental issues (greenhouse gas (GHG) emissions, renewable energy, water consumption and waste production) and two social issues (gender diversity and working conditions). Some of those issues (water consumption, waste production and working conditions) are only measured for specific sectors and therefore only a smaller number of observations are available. For all environmental issues and gender diversity, we find that policies on these issues significantly positively affect the implementation of these issues by using programs. For working conditions, we do not find a significant effect. Implementation, on its part, improves the impacts for GHG emissions and the use of renewable energy, but not for the sector-specific issues water consumption and waste production. This significant effect is also found for gender diversity and working conditions (except when impacts are measured as number of fatalities). Furthermore, for all issues under investigation, we find that if policies generate impacts, this is only the case when those issues are also implemented by using programs. Implementation is therefore found to be a full mediator of the influence from policies and therefore a crucial element in the process from rhetoric to realities. The size of the company seems to play an important role: the larger the company, the more CSR is implemented and the larger the impacts. We should, however, keep in mind that all the companies in the sample are relatively large and SMEs are not included in this analysis. Reporting on CSP is found to be a relevant generic organizational measure to improve CSR impact. Furthermore, the results show that for many issues, making the director responsible for CSP improves the implementation of CSR and therefore the impacts. However, we do not find a significant effect of linking the director's remuneration to CSP, which might also be due to the relatively low number of companies in the sample that have introduced such a measure yet.

In Chapter 6, we explicitly acknowledge the different nature of large companies and SMEs and use the data from the SME survey which includes 5,317 European companies. Most of the current literature suggests that, due to their different nature, SMEs should not be asked to formalize CSR by for example setting targets and reporting about achievements. We study a more nuanced view in which we acknowledge the different nature of SMEs compared to large companies, but that formalization might help to improve the impacts of CSR also for SMEs. Therefore, we treat formalization as a possible moderating effect, instead of a causal or mediating effect on the impacts of CSR. Results show that larger companies indeed tend to formalize CSR more than smaller companies. Furthermore, for most environmental and social issues examined, doing effort on an issue has a significant and substantial effect on the

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company's impact on that issue. Formally implementing CSR by measuring performance, using targets and reporting positively moderates this relationship. Therefore, contrary to the common opinion in literature, for SMEs, formally implementing CSR positively contributes to the impacts of CSR. Especially the interaction between subjective informal CSR effort and objective formal measures seems to be fruitful in generating impacts.

## **7.2 Discussion of drivers of CSP**

In this section we further discuss and interpret the findings of the two analyses on the drivers of CSP and show their mutual relationships. Many results that we found were similar in the two different analyses, which strengthen the belief in their significance.

### *Conceptual frameworks and datasets*

Both Chapter 2 and 3 analyze the drivers of CSP, but they use different conceptual frameworks and datasets. In Chapter 2, we use data from a sustainability rating agency (Sustainalytics) to measure CSP and sent out an additional survey to gather data on drivers. The benefit of this approach is that we used two different datasets for the drivers of CSP and realized CSP, therefore diminishing a possible social desirability bias and strengthening the evidence for the relationships between drivers and CSP. The disadvantage of using the dataset from Sustainalytics is that the dataset has not been specifically developed for answering our research questions, although it still provides very useful information for this purpose. The survey on drivers for large companies was sent to an only small number of companies (1,346 that were available in the rating data) and therefore the sample was relatively small (212 companies). Due to the limited number of companies in the sample, we could not make our conceptual framework too complex. Therefore, we restrained from introducing a complex structure in the conceptual framework and only study the reduced form effects from the various drivers on the level of CSP.

Although in Chapter 3 we only use one dataset and therefore the possibility of a social desirability bias is larger, the survey we designed and sent out could be adjusted to the research questions of this dissertation and include variables that are especially of interest for SMEs. As the sample is larger (5,317 companies fully completed the survey), we could also study the most important internal drivers (the various types of strategic motivation) and the structure of drivers, therefore enabling to distinguish direct and indirect effects and allowing more sophisticated interpretations of the results.

### *Competition*

The results show that it is important to distinguish price competition and technological competition when considering the effect of competition on CSP. Both analyses to the drivers of CSP show that technological rather than price competition significantly and substantially

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affects CSP. As the second analysis shows that technological competition affects CSP both directly and indirectly (through stakeholder's responsiveness and strategic motivation), at least two explanations for this effect are tenable. First, CSP seems to be positively related to innovation capacity. Indeed, Ziegler and Nogareda (2009) show that the adoption of environmental management systems is related to environmental product and process innovation. Second, technological competition affects CSP indirectly through a significant positive effect on the responsiveness of stakeholders: only when stakeholders have something to choose, they are empowered to reward and punish companies for good and bad behavior respectively. It is interesting that we find an effect of price competition in none of the two analyses and therefore no support is found for the proposition that CSP is hampered by price competition (Van de Ven and Jeurissen, 2005). Furthermore, we also did not find any support for the proposition of a non-linear relationship between price competition and CSP (Campbell, 2007).

### *Transparency*

Besides identifying technological competition as an important economic driver of CSP, the analyses in both Chapter 2 and 3 show the empirical relevance of the role of NGOs and media in generating transparency and therefore in driving CSP. Active monitoring by NGOs and media enforces the reputation mechanism by making company operations more transparent. The tactics of NGOs may vary from appealing directly to the companies, organizing demonstrations, pressuring local governments and mobilizing media campaigns. Also the media may independently operate as a watchdog of the company's CSP. That the media and NGOs really have an impact on the actions of a company is also highlighted by various cases, like the Kenosha case of Chrysler, the Brent Spar case of Shell, the Dolphin-Tuna case or the construction fraud in the Netherlands (Grolin, 1998; McMahon, 1999; Wright, 2000).

Chapter 3, in which we tested the complex structure of drivers, shows that NGOs and media have a direct as well as an indirect effect on CSP. The indirect effect via the stakeholder's responsiveness illustrates that stakeholders can only react to the company's CSP when NGOs and media provide them with the information to do so. It is, however, important to remark that we did not account for the quality of the information they provide, which will be considered below when discussing the policy implications. The direct effect of NGOs and media on CSP can be explained by the fact that they generate awareness about CSR in the companies. This actually is a prerequisite for being susceptible for strategic motivations of CSP at all.

In Chapter 2, we also study the influence of mandatory reporting in generating transparency. As SMEs are expected not to be subjected to mandatory CSP reporting, this driver was not included in Chapter 3. Chapter 2 shows that government regulation of CSP through mandatory reporting has a significant positive effect on CSP. Companies that are subject to more transparency perceive a stronger reputation motive and this motivates them to a more active CSR policy. By making information on CSP more transparent, rating agencies

will have more access to information on CSP. This will foster self-regulation by market participants, analogues to the effect of corporate financial disclosure in the past (Fung et al., 2006). The rise of the financial reporting system was not a fully autonomous process. The American government played a major role by setting up a basic reporting framework in 1933-1934. This expanded the scope and reliability of the information collected by rating agencies considerably and consolidated their position as a vital player in corporate financial reporting. Likewise, a basic legal framework in CSP reporting could foster self-regulation in CSR (Dubbink et al., 2008).

We do not find any support of an influence of industrial organizations or business schools that provide information to companies on CSP. Especially the absence of an effect of industrial organizations is quite remarkable, as one would expect that the type of information industrial organizations provide make companies more aware of the strategic effects that CSR has on their profitability, reputation and innovation. Furthermore, they could provide tools or instruments that companies can use to integrate CSR into their operations.

#### *Strategic motivation and stakeholder's responsiveness as mediators*

In the second analysis, in Chapter 3, we explicitly test the effect of the motivation of the company on the level of CSP. Motivation is regarded as the mediator between stakeholder's responsiveness and the level of CSP. We do find a significant and substantial effect from a company's strategic motivation for CSP on the level of CSP. Strategic motivation appears to be a combination of four types of motives: the profit motive, reputation motive, innovation motive and regulation motive.

Stakeholder's responsiveness to CSP on product and labor markets is found to be a relevant driver of CSP. This shows that once companies perceive that employee turnover will decline and product margins, product turnover and motivation of employees increase with CSP, this provides them with a strong strategic motivation to integrate CSR into their strategy and policies. Furthermore, as the analysis in Chapter 3 shows, stakeholder's responsiveness is a relevant mediator for the effect of technological competition and monitoring by NGOs and media on CSP.

It would be interesting to disentangle the effect of reputation and innovation as drivers for companies to invest in CSP. Reputation refers to the legitimacy of the company, giving it a license to operate, and is generally considered as a traditional argument for CSR. Innovation helps the company to improve its market position by positively differentiating its product from competitors and is often considered as a more relevant argument these days to adhere to CSR (Asongu, 2007). Although our findings do not make it possible to decide which influence is most important, our analysis provides some indications that both are important. First, our analysis shows that several variables that facilitate the working of the reputation mechanism are relevant: reputation is acknowledged as an internal driver of CSP, the responsiveness of stakeholders improves strategic motivation, and transparency (monitoring by NGOs and media and mandatory CSP reporting) is found to be a significant driver of CSP.

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Other variables show that also innovation is an important driver: respondents give a high score on innovation as being a motive for CSR. Furthermore, technological competition has an effect on CSP, both directly and indirectly via the responsiveness of stakeholders. Current CSR literature does not always take account of the relevance of both types of influences on CSP. One could, for example, question whether simple CSP reputations are really good reflections of underlying CSR values and behaviors. In studies on CSP, these CSP reputations are often used to measure CSP (Van Beurden and Gössling, 2008; Liston-Heyes and Ceton, 2009). It also challenges one of the findings of Orlitzky et al. (2002) that the effects of CSR on financial performance mainly stem from the effects of the company's reputation instead of improved organizational efficiency. Our findings show that companies perceive innovation these days as another important strategic driver of CSP.

#### *Company size*

The size of the company is in both studies in Part I found to be a relevant parameter in predicting the level of CSP: the larger the company, the higher the level of CSP. The second analysis shows that the effect is both direct and indirect. The indirect effects are mediated by the higher level of stakeholder's responsiveness, probably because larger companies are easier to monitor than smaller companies, which provides stakeholders with more information to decide whether or not to reward or punish a company. The results indicate that the responsiveness of stakeholders to CSP of smaller companies is not as strong as for large companies. One would have expected that, as their stakeholders are often more involved with the company and therefore at least the quality of the information and its interpretation might be superior, CSP of small companies is better monitored than for large companies, but this is apparently not the case.

### **7.3 Discussion of impacts of CSR**

#### *Conceptual frameworks and datasets*

In comparing the results of the three analyses on the impacts of CSR, we should keep in mind that we use three different conceptual frameworks and datasets. In Chapter 4, we use data for 109 companies in China, both large companies and SMEs. As we used survey data, we were able to adjust the questions to our conceptual framework. Due to limited sources, however, we could not make the survey too long. Together with the relatively small number of observations, our conceptual framework is necessarily not too complex. Although we use the three relevant parts (rhetoric, implementation and impact) and study their relationships, the rhetoric and implementation part both only contain generic instruments like a code of conduct and management systems. This study, therefore, is explorative.

In Chapter 5, we use a dataset with only large companies from Sustainalytics. This is the same dataset as we used in Chapter 2, but now we do not just use the overall CSP score

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but the various underlying indicators. The issues that Sustainalytics researches can be constructed like a tree. Three main pillars are distinguished: environment, social and governance. Below this level several topics are distinguished like operations, products and services, and employees. Under these topics we find various indicators. Research is ultimately conducted at the indicator level. The about 150 indicators that Sustainalytics uses can be divided into two different types: generic indicators and sector-specific indicators. The generic indicators are applied to every company in the database. The sector-specific indicators are only assessed for the companies for which they are relevant. Within each of the two classes of indicators, Sustainalytics roughly distinguishes indicators on policies, programs and on impacts for various social and environmental issues. Therefore, in our conceptual framework, we are able not only to distinguish the various parts and estimate their relationships, but, contrary to Chapter 4, also do this on an issue-specific level for each part.

In selecting the relevant issues for our analysis in Chapter 5, we limited them to social and environmental issues. Furthermore, we excluded those issues for which there was no data on one of the three parts (rhetoric, implementation and impact). After that, we were left with 2 generic environmental issues (GHG emissions and renewable energy consumption), 2 sector-specific environmental issues (water consumption and waste production), 1 generic social issue (gender diversity) and 1 sector-specific social issue (working conditions). For the generic issues, we could use the whole sample (1,131 companies), for the sector-specific issues we used a subsample from those 1,131 companies. Another benefit of using this rating data is that we had data for three years (2007, 2009 and 2010) and therefore could also introduce the time factor.

In Chapter 6, we used the same survey as we used in Chapter 3. Compared to the dataset for large companies from Sustainalytics, in the survey we were able to frame it to also apply to SMEs. Therefore, we for example explicitly distinguish informal and formal ways of implementing CSR and therefore do not assume that companies have formal policies on CSR issues at all but can also just ‘do effort’ on CSR. Furthermore, we were able to gather data on four environmental issues (GHG emissions, energy consumption, water consumption and waste production) and four social issues (women on board, recruitment of employees from disadvantaged groups, work-life balance and sickness absence rate) for all the 5,317 European companies.

Overall, we do find many significant relationships, but not for all issues and they are often not very substantial. Below we discuss the findings in more detail.

#### *Implementation as mediator*

In both Chapter 4 and 5, we model CSP as a process in which the implementation of CSR in the company mediates the influence from rhetoric, as stated in policies, on achievements or impacts. In both analyses, we find that if policies indeed result in impacts, then only through the implementation of CSR. In other words: only when CSR is somehow implemented into the organization, rhetoric can result in realities. This is a relevant finding and shows the

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relevance of encouraging companies not only to present their visions, but also to implement them in a specific way into the organization. This does not imply, however, that rhetoric is not an important element of CSP itself. Exactly in formulating their ideas and stating their pretensions, companies bind themselves in showing their responsibilities. When companies do not live up to those responsibilities, and the conditions for a well-functioning reputation mechanism are fulfilled, not achieving the pretended results will be rather costly, as this will diminish their reputation. Rhetoric itself, therefore, is a relevant prerequisite and guidance for an adequate CSR implementation and a crucial element of the process to CSR impact.

When we look at the findings more specifically, we find fewer impacts of CSR in the analysis on companies in China than in the second analysis on large companies worldwide. In the analysis on Chinese companies, we find that when a code of conduct is in place, companies also tend to implement CSR, but only in 8 out of the 56 relationships we also find a significant impact. We do, for example, find an impact for renewable energy and recycling of waste, when a code of conduct and environmental targets are in place. In the analysis on large companies, we find for almost each issue examined (except working conditions), that when a company has a policy on that issue, it also tends to implement it by using programs. However, we only find impacts for GHG emissions and the use of renewable energy and not for the other two environmental issues examined (water consumption and the recycling of waste). This might be due to the fact that the latter two issues are sector-specific and therefore we could only use a subsample for the analysis. For both social issues examined (gender diversity and working conditions), though, we find impacts when policies and implementation of those issues are in place. As the analyses in Chapter 4 and 5 differ significantly with respect to conceptual frameworks and datasets, as we showed above, it is difficult to draw strong conclusions here.

#### *Implementation as moderator*

Organizing CSR, however, can be done in a formal way, by using policies, programs and targets or more generic management systems, but also in an informal way. In Chapter 6, we explicitly acknowledge the different nature of SMEs compared to large companies. As they are smaller, SMEs tend to be much more embedded in their local environment and the director often is more involved into the daily operations. Their organization of CSR therefore tends to be more informal than for larger companies. Still, our analysis shows that using formal organizational CSR measures positively contributes to the impacts of CSR. We find a moderating effect (together with a direct effect from doing effort on impact) for three social issues (gender diversity, recruitment of employees from disadvantaged groups and sickness absence rate) and four environmental issues (GHG emissions, energy consumption, water consumption and waste production). Only for the issue work-life balance, we do not find a moderating effect, nor a direct effect of doing effort on the impacts. Although most current literature on SMEs tends to shun formal CSR measures in SMEs, the significant moderating effect shows that an adequate mix of a subjective, informal organization and an objective,



formal organization is very fruitful for SMEs. This is not strange, as too many subjective elements may make the company vulnerable for the erratic of the director. On the other hand, too much formalization, especially in smaller companies, can be improper for SMEs, as they often just lack the time and finances to do this. Furthermore, by diminishing subjectivity in the company, it may crowd out intrinsic motivation. Intrinsic motivation is subjective by nature.

#### **7.4 Policy implications**

The findings in this dissertation give rise to various specific policy implications for governments.

First, as we find strong empirical support for a positive effect on the level of CSP of technological competition, but no effect of price competition, governments should distinguish these two types of competition when considering its competition and CSR policy. As technological competition improves the company's level of CSP, innovative environments should be encouraged. It should be noted, however, that we did not study whether too much focus on innovation might harm CSP and therefore whether there exists an optimal level of technological competition. One could, for example, argue that companies that are changing too much tend to neglect their fundamental structure and its roots due to time pressure, thereby ultimately decreasing social welfare over time. Governments therefore not only have the responsibility of fostering innovation, but also of evaluating the right amount of innovation and therefore keeping an eye on the sustainability of the society. As our results do not show any effects of price competition on CSP, it seems that price competition is not as important in CSR policy as technological competition.

Second, although we find the relevance of stakeholder's responsiveness to strategic motivation of companies and therefore in contributing to higher levels of CSP, the responsiveness of the financial market, and more specifically banks, seems to be lacking. Also in our interviews with directors from SMEs to pretest our survey, we discovered that many were disappointed that banks too often only consider simple financial figures when making their lending decisions to them, instead of also considering the company's other contributions to society. As providers of funds are often powerful stakeholders, this is a missed chance. One way to deal with this is that banks get convinced that also considering these extra-financial aspects of corporate performance reduce the risks and therefore the costs of their portfolio. This, however, is solely a strategic motivation for banks. One might wonder whether banks cannot be asked to take more responsibility than that, as they are institutions that can really make a difference here and have a special responsibility for social welfare. Especially nowadays, when the irresponsible behavior of banks and the financial sector in general, is generally considered as the main cause of the recent crisis in the world economy, one would expect some more awareness and therefore more room for these initiatives. Governments and central banks are expected to be able to stimulate banks and financial institutes to consider CSP when lending to companies by for example investing in long-term relationships with

their clients. Only through these long-term relationships, banks can judge the responsibility their clients take for the social welfare other than making profits.

Third, we find that NGOs and media play a relevant role as drivers of CSP. Not only do they provide stakeholders with the information they need to strategically motivate companies to improve their CSP levels, they also increase the awareness of companies of CSR as such and therefore directly contribute to the strategic motivation of companies to CSP. What we, however, did not study is the role of the *quality* of information from NGOs and media. As the role of NGOs and media has become more important these days, also the number of hypes and therefore wrongful rewarding and punishment of companies has increased. A relevant question, therefore, is how the quality of information can be sustained and therefore the effort that stakeholders and organizations take to really understand what a company is doing, as wrongfully rewarding and punishing can easily diminish social welfare. One could then even assert that it is better not to know, than not knowing that one mistakenly thinks to know something. It is exactly contributing to this wisdom that is the responsibility of governments. In The Netherlands, for example, the government introduced courses to enhance the ‘media wisdom’ of the youth. Furthermore, governments can also improve the quality of information by encouraging companies to report on their CSP and by facilitating an environment in which reporting is a honest way of communication between companies and stakeholders, in which companies know what stakeholders ask them to report and stakeholders take the effort also to interpret the reports, instead of only reacting on abstractly reported facts. Rating agencies, with their expertise of tapping into the informational needs of stakeholders and experience in interpreting company’s reporting, might function as an important mediator here. As rating agencies mainly focus on large companies, ways have to be found how to involve SMEs in this process. Technological tools, which better enable them to compare their CSP with their peers, might contribute here.

Fourth, governments should acknowledge that large companies and SMEs cannot be approached in the same way in CSR policy. As SMEs are often more embedded in the local environment, often depend heavily on the director’s involvement and have fewer financial resources than large companies, SMEs are often regarded as being less able to formalize CSR. Therefore, it is also less advisable to ask them to do that, as this may generate aversion to CSR. Still, we find that a right mixture of subjective informal organization and objective formal organization of CSR is fruitful in fostering CSR impacts. Therefore, governments should encourage SMEs to at least try to objectify internal organizational management issues. Governments could, for example, improve the support and knowledge that industrial organizations and business schools provide. Our study shows that these organizations do not contribute much to the CSP level of companies yet. By enhancing their commitment, SMEs can be supported to think more carefully about their CSP and the optimal way for them to organize it in their company.

Fifth, we find that companies that operate on the B2C market tend to have higher levels of CSP than companies that operate on the B2B market. This can be explained by the fact that companies that deliver to consumers are more visible and therefore more subjected to

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the working of the reputation mechanism and the reputation motive is found to be a significant and substantial motive for CSP. It therefore seems reasonable to encourage B2C companies to also take care of the CSP of the companies earlier in the supply chain. There is much interest nowadays in supply chain management. Governments can improve this management by enhancing the reporting requirements on CSR, also for B2B companies.

Finally, our results show that CSP levels increase when directors are being made responsible for the company's CSP. We do, however, not find support that linking the director's remuneration to CSP improves the levels of CSP, but the relatively low number of companies that already have implemented this measure might explain this. Still, we think that linking remuneration to CSP might be a smart policy, especially nowadays when the public opinion, at least in The Netherlands, is strongly against bonuses. By making the achievements of public goals broader than only making profits part of the bonus, these bonuses will not only be more acceptable for citizens, but also more fairly reward the director's real contribution to the company and the society. This will be quite a challenge, though, as it is not that easy to assess this kind of performance. Alternatively, more informal ways of dealing with a director's extra-financial contribution may be preferred, like granting him more sovereignty and other non-monetary rewards.

## **7.5 Limitations and further research**

Although this study covers as many relevant aspects for the analysis into the rhetoric and realities of CSR as possible, this study is necessarily subject to many limitations that give rise to further research. We distinguish conceptual and econometric limitations and shortly discuss some of them. We also discuss some possible extensions for the empirical research.

### *Conceptual limitations*

The question to the rhetoric and realities of CSR as raised in this dissertation is very broad and quite pretentious. This is mainly due to the fact that this dissertation was written as part of the extensive IMPACT-project, in which this question was explored. Although this broad approach contributes to a better understanding of the problem at hand and therefore generates a research agenda, in future research a stronger focus on various parts would be warranted. For example, the relationship between the various parts of the CSP model should be further studied, which would not only contribute to improved theoretical underpinnings of the relationships, but also to stronger definitions of the various parts. In more thoroughly examining the relationship between CSR rhetoric and implementation, for example, one might examine the difference of CSR rhetoric as an *a priori* part and CSR implementation as an *a posteriori* part. As the model that we now use is conceptually quite generic, there is a high risk of contamination of the various parts. Specification of the model could counter this.

This also holds for the various specific social and environmental issues that we study: due to the broad question, we cannot more thoroughly study the various specific issues in

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isolation. Much is written, for example, about the issue of board gender diversity. By studying this literature and focusing on this specific issue, more concrete implications could be derived from the analysis.

Besides that the conceptual framework is relatively generic, we also had to restrict it. Most importantly, we assume that CSR impact at the company level affects social and environmental trends at the level of society in the same way. This assumption, however, could be questioned. These social and environmental impacts at the business level have direct as well as indirect effects on society. The direct social impact concerns the effect that a change in CSR in an individual company will have on the social level, merely from its being part of the broader environment. For example, if a company reduces its GHG emissions on production sites, this will directly lead to a (small) overall reduction of GHG emissions at the social level. Likewise, if a company improves its gender diversity, it will directly lead to a small increase in gender equality at the social level (in proportion to the company's size). Besides these direct effects, the impacts at the business level may have indirect social effects by affecting CSP of other companies. Such indirect impacts arise from the diffusion of CSR conducted in companies into their specific sectors and ultimately the macro environment. Once a company has established CSR impact, various factors effectively act as multipliers in that they put pressure on companies operating in the same sector to imitate their innovative peer, which leads to diffusion of CSR, multiplying the initial direct impact of a single company's CSR impact. Companies with higher levels of CSP may contribute to a cultural change in the sector to take better care of CSP, therefore fostering CSR impact at the macro level also indirectly. However, companies that have high levels of CSP may also discourage other companies to invest in CSP or even encourage them to specialize themselves in doing business without investing in CSP. The significance of these effects also depends on the behavior of the other market participants, like customers that care about CSP or not. It also shows the possible relevance of industrial organizations to coordinate the behavior within the sector. Depending on the net effect of these factors, the overall indirect impact can range from very negative to very positive, but it could also be negligible if they balance each other out. Moreover, these indirect impacts may not only arise from a change in CSR impact of the company, but also from the CSR implementation a company undertakes. This is because a company's CSR policies and programs might have a signaling effect on its peers, especially if rhetoric and measures are more easily observed than impacts. In short, further research on the relationship between CSR impact at the business level and CSR impact at the level of society is advisable.

#### *Econometric limitations*

First, most of the empirical research is done with data for only one year. The only exception is the study on the impacts of CSR for large companies, in which we use rating data for three years. This means that in most studies we cannot account for the time dimension in the causal relationships and therefore have fewer opportunities to identify causality. Therefore, it would

be interesting to redo the analyses and use data for different years. Panel data, especially for the extensive survey on European SMEs, which 5,317 companies fully completed, would be valuable for getting more insights into the relevant relationships.

Second, many relationships in our study are subject to possible reverse causality. Strategic motivation, for example, could also be caused by CSP, although we cannot explicitly test this. Although we tested for endogeneity by using Hausman's endogeneity test, it would be more appropriate to use instrumental variables to exclude reverse causality. Proper instrumental variables to test for these relationships, however, are difficult to find. This is another reason for using panel data in future research, as using time lags is a fruitful way of countering inverse causality.

Third, we found out that it is difficult to obtain good financial data from SMEs. Therefore, we were not able to control for slack resources in the analysis for European SMEs. In the analysis for large companies, however, we found no significant effect of slack resources on CSP. Furthermore, the effect of the level of competition could be used as a proxy for slack resources, as it is conceptually clear that slack resources are expected to be lower the higher the level of competition.

#### *Extensions for empirical research*

In presenting the results, we discovered several interesting influences of control variables, which we did not further study. We shortly discuss two of them.

First, we find some influences of the sector in which the company operates, but did not further study them. In the analysis for large companies in Chapter 2, we find that the energy, material, industrial, healthcare and ICT sector have a higher level of CSP than the consumer and financial sector. As especially the energy, material and industrial sector are expected to be subjected to higher levels of negative external effects, their relatively higher level of CSP is as expected. In the second analysis where also SMEs are included, we again find that companies in the energy sector have higher levels of CSP than in other sectors, although we do not find higher levels in the material and industrial sector. Also when we studied the impacts of CSR, a univocal interpretation of the findings was not possible. Therefore, although sectorial differences are apparent per issue, we cannot identify a clear structure and further study is therefore warranted.

Second, it would be interesting to further study the influence of the region in which the company operates. We found that companies from European countries with a fairly large welfare state outperform companies from Asia and from Anglo Saxon countries within or outside the EU with a smaller welfare state. These results indicate that the larger potential for CSR in Anglo Saxon capitalism is not supported. Rather the opposite seems true. This may be due to the broader orientation than on shareholder value only in Continental European countries. But it may also be due to the fact that government regulation stimulates rather than crowds out the inclination of companies to take responsibility for social welfare by signaling the high priority that social and environmental issues receive in society and the democratic

support for them. The interpretation of these results is complicated, however, because the regional dummies in our analysis may capture several different types of influences, such as culture and general government regulation. More research is therefore warranted.

Amsterdam, 15 september 2014

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